



海隆控股有限公司*

Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1623

GLOBAL OFFERING



Sole Global Coordinator and Sole Sponsor

Joint Bookrunners and Joint Lead Managers

Morgan Stanley

Morgan Stanley



*For identification purpose only

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Hilong Holding Limited
海隆控股有限公司*

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 400,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	: 40,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 360,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$3.27 per Public Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.10 per Share
Stock code	: 1623

Sole Global Coordinator and Sole Sponsor

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Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

See the section headed "Risk Factors" for a discussion of certain risks that you should consider before investing in the Shares.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us, on the Price Determination Date. The Price Determination Date is expected to be on or around April 14, 2011 and, in any event, not later than April 19, 2011. The Offer Price will be not more than HK\$3.27 and is currently expected to be not less than HK\$2.50, unless otherwise announced. If, for any reason, the Offer Price is not agreed by April 19, 2011 between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Joint Bookrunners (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus (which is HK\$2.50 to HK\$3.27 per Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at www.hkexnews.hk and on the Company's website at www.hilonggroup.net not later than the morning of the day which is the last day for lodging applications under the Public Offer. Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Public Offer. Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, solely because the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range is so reduced. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Public Offer Shares" in this prospectus.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Public Offer Shares, are subject to termination by the Joint Bookrunners (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (1) to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

** For identification purposes only*

April 11, 2011

EXPECTED TIMETABLE⁽¹⁾

Application lists open ⁽²⁾	11:45 a.m. on Thursday, April 14, 2011
Latest time to complete electronic applications under the White Form eIPO service through the designated website at www.eipo.com.hk ⁽³⁾	11:30 a.m. on Thursday, April 14, 2011
Latest time to lodge WHITE and YELLOW application forms	12:00 noon on Thursday, April 14, 2011
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Thursday, April 14, 2011
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, April 14, 2011
Application lists close ⁽²⁾	12:00 noon on Thursday, April 14, 2011
Expected Price Determination Date ⁽⁵⁾	Thursday, April 14, 2011
Announcement of:	
<ul style="list-style-type: none"> • the Offer Price; • an indication of the level of interest in the International Offering; • the level of applications of the Public Offer; and • the basis of allocation of the Public Offer Shares 	
to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company website at www.hilonggroup.net on or before	Wednesday, April 20, 2011
Announcement of results of allocation (with successful applicants' identification document numbers, where applicable) will be available through a variety of channels, including the websites of the Stock Exchange and our Company, as described in the section headed "How to Apply for Public Offer Shares—Results of allocations" in this prospectus from	Wednesday, April 20, 2011
Results of allocations in the Public Offer will be available at www.iporeresults.com.hk , with a "search by ID" function	Wednesday, April 20, 2011
Dispatch of share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications on or before ⁽⁶⁾	Wednesday, April 20, 2011
Dispatch of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications on or before ⁽⁶⁾⁽⁷⁾	Wednesday, April 20, 2011
Dealings in Offer Shares on the Stock Exchange to commence at	9:00 a.m. on Thursday, April 21, 2011

(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Thursday, April 14, 2011, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Public Offer Shares—When to apply for the Public Offer Shares—Effect of bad weather conditions on the opening of application lists” in this prospectus.
- (3) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Public Offer Shares—How to apply by giving **electronic application instructions** to HKSCC” in this prospectus.
- (5) Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Thursday, April 14, 2011 and, in any event, not later than Tuesday, April 19, 2011. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not proceed and lapse. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK\$3.27 per Share payable by applicants for Shares under the Public Offer, applicants who apply for Shares must pay on application the maximum offer price of HK\$3.27 per Share plus the brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% but will be refunded the surplus application monies as provided in the section headed “How to Apply for Public Offer Shares” in this prospectus.
- (6) Applicants who apply for 1,000,000 or more Public Offer Shares and have indicated in their Application Forms their wish to collect (where applicable) refund cheques and/or (where applicable) share certificates in person may do so from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, April 20, 2011 or any other date notified by us as the date of despatch of share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporations’ chops. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms shortly thereafter. If you have applied for less than 1,000,000 Public Offer Shares or have applied for 1,000,000 Public Offer Shares or more but have not indicated in the Application Form that you wish to collect share certificates and/or refund checks in person, your share certificates (if applying by using a white Application Form or through the WHITE Form eIPO service) and/or refund cheques (if applying by using WHITE or YELLOW Application Form) will be sent to the address on the Application Form on Wednesday, April 20, 2011 by ordinary post and at your own risk. Further information is set out in the section headed “How to Apply for Public Offer Shares”. **Share certificates will only become valid certificates of title provided that the Public Offer has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms.** For applicants who apply by giving electronic application instructions, the relevant arrangements are set forth under the section headed “How to Apply for Public Offer Shares—How to applying by giving **electronic application instructions** to HKSCC” in this prospectus.
- (7) Refund payment will be made in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price is less than the initial price per Offer Share payable on application.

For details of the structure of the Global Offering, including conditions of the Public Offer, you should refer to the section headed “Structure of the Global Offering” in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Hilong Holding Limited solely in connection with the Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Neither we nor the Selling Shareholder has authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholder, any of the Joint Bookrunners, any of the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OUR COMPANY

Introduction

Hilong is a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. According to the Spears' Report, we are the market leader in the supply of drill pipes in China with a 30% market share, and the second largest supplier of drill pipes globally with a 13% market share, both based on 2009 sales. According to the Spears' Report, we are the market leader in the supply of OCTG coating materials and services, with a 67% market share in China, and the second largest globally with a 12% market share, both based on 2009 sales. We are also the largest supplier of line pipe coating materials in China with a 60% market share based on 2009 sales, according to the same source.⁽¹⁾ We recently expanded into the oilfield services business with an initial focus on drilling services, which we expect to become an increasingly significant revenue stream in the future.

We have attained our leading market positions by focusing on building capabilities in key components of the drilling equipment value chain: steel pipes (which are the principal raw material in manufacturing drill pipes and are supplied from our joint venture), drill pipe products, coating materials and services as well as hardbanding materials and services. Furthermore, we believe these capabilities help us derive benefits such as better control over product quality, greater ability to expedite delivery and provision of one-stop after-sales services, which contribute to more attractive pricing and greater ability to maintain profit margin. We believe that the quality, deliverability, service and price of our products provide a unique value proposition for our clients and further contribute to our ability to maintain our leading market positions.

Customer Base

Our major customers include China's largest oil and gas companies such as CNPC and Sinopec. We are also a qualified supplier to many of the major international oil and gas companies, including Schlumberger, Gazprom and Weatherford. We have established overseas sales offices strategically located in some of the most active regions in the oil and gas industry, including Russia, the United Arab Emirates and Canada. As our recently established oilfield services business continues to gain momentum, we expect our profile and recognition in the international markets to continue to grow. We believe that the diversity of our customer base and the balanced mix between our PRC sales and international sales contribute to our ability to manage through industry cycles.

In 2008, 2009 and 2010, to our knowledge of our customers' information, sales to CNPC and its affiliates accounted for 44.4%, 28.6% and 25.5% of our revenue, respectively; sales to Sinopec and its affiliates accounted for 5.9%, 7.6% and 9.6% of our revenue, respectively; and sales to Schlumberger, Weatherford and Gazprom, directly and through distributors, in the aggregate accounted for 14.9%, 1.8% and 3.1% of our revenue, respectively. See "Business—Customers."

⁽¹⁾ According to the Spears' Report, we held 10% and 16% of the global drill pipe market in terms of sales in 2007 and 2008, respectively, and held 30% of the drill pipe market in China during the same period; we held 8% and 13% of the global OCTG coating materials and services market in terms of sales in 2007 and 2008, respectively, and held 60% and 67% of the OCTG coating materials and services market in China during the same period; and we held approximately 30%-40% and 50% of the line pipe coating materials market in China in terms of sales in 2007 and 2008, respectively. Throughout this prospectus, sales of associates and jointly controlled entities calculated based on our equity interests in such entities have been included for purposes of calculating our market share. Accordingly, for purposes of this calculation, our 2009 sales included the following amounts in sales of associates and jointly controlled entities: RMB0.9 million for drill pipes, RMB31.5 million for OCTG coating materials and services, and nil for line pipe coating materials, representing 0.2%, 23.9% and nil of our 2009 sales for purposes of calculating our market share for these products and services, respectively. The inclusion of these amounts for purposes of calculating our market share has not materially affected our market position in these products and services.

SUMMARY

Production and Product Quality

Our supplier qualification from the major international oil and gas companies is also a testament to the quality of our products. To ensure our product quality, we seek to utilize advanced equipment in our production. Our production techniques developed in-house have been continuously refined through years of experience and enhance our product quality. As a reflection of our product and service quality, our drill pipe and hardbanding products as well as coating services have been certified to meet the Fearnley Procter NS-1 quality and inspection requirement, which is a quality standard recognized by major oil and gas companies, such as Shell, Weatherford and Schlumberger. According to the Spear's Report, we are one of only three drill pipe manufacturers in the PRC with the Fearnley Procter NS-1 certification. See "Business—Our Products and Services—Drill Pipes and Related Products—Drill Pipes."

Research and Development

We have built our research and development capabilities based on our objective of designing, developing and commercializing new products using advanced technology. In particular, our research and development activities for drill pipe products are primarily conducted through our Shanghai Hilong Tubular Goods Research Institute, which also serves as an independent testing centers for drill pipes in China. Through this institute, we have developed and commercialized a number of high-end drill-pipe products, such as sour service and high-torsion drill pipes. See "Business—Research and Development." Our in-house research and development team has also developed advanced coating materials, such as extreme temperature and high corrosion coating materials. Our current research and development focus includes "intelligent" drill pipes and aluminum alloy based drill pipes.

Operating Results

Our operating results during the Track Record Period have been affected by the recent global financial crisis and the resulting changes in oil and gas drilling activity levels. In particular, our revenue, particularly revenue from the international market, decreased significantly in 2009, reflecting significant decreases in both sales volume and average selling prices of drill pipes sold. Our gross profit margin decreased and our turnover days of inventory and trade receivables increased significantly in 2009. As of the Latest Practicable Date, some of our domestic and international customers, including those with significant transaction value and/or receivable balances with us, may not have fully recovered from the global financial crisis. See "Risk Factors—Risks Relating to Our Business and Industry—The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations." In addition, we entered the coating business in 2002, the drill pipe manufacturing business in 2005 and the oilfield services business in 2008. As a result, we have a limited operating history for potential investors to evaluate our business prospects. As our historical performance experienced significant fluctuations during the Track Record Period, our historical operating results may not be an indication of our future performance. See "Risk Factors—Risks Relating to Our Business and Industry—It is difficult to evaluate our results of operations and future prospects due to the significant fluctuation in our historical performance and our limited operating history."

We believe that the most significant factors that affect our business and results of operations include (i) level of demand for oil and gas equipment and services in China and globally, (ii) changes in utilization rate and production or service capacity, (iii) fluctuations in raw material prices, (iv) product and service mix and (v) applicable regulatory environment. We were historically and expect to continue to be affected by these factors. See "Financial Information—Factors Affecting Our Results of Operations."

SUMMARY

In 2008, 2009 and 2010, our revenue totaled RMB1,701.4 million, RMB1,006.7 million and RMB1,356.5 million, respectively. The following table sets forth our historical revenue by business segment for the period indicated:

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Drill pipes and related products	1,261,262	74.1	518,586	51.5	713,068	52.6
Coating materials and services	415,934	24.4	435,026	43.2	371,856	27.4
Oilfield services	24,184	1.5	53,044	5.3	271,538	20.0
Total revenue	1,701,380	100.0	1,006,656	100.0	1,356,462	100.0

The drill pipes and related products segment has been historically, and we expect it to continue to be, our largest segment in terms of revenue contribution. The significant fluctuation of our historical revenue derived from this segment primarily reflected the fluctuations in international oil and gas prices. The following table sets forth our sales volume, average selling price and revenue of sales of drill pipes in international and PRC market for the periods indicated. For more information, see “Financial Information.”

	For the year ended December 31,		
	2008	2009	2010
International market			
Sales volume (tonnes)	17,120	3,961	10,550
Average selling price (RMB per tonne)	37,829	29,395	25,842
Revenue (thousands of RMB)	647,642	116,433	272,630
PRC market			
Sales volume (tonnes)	21,900	11,314	14,469
Average selling price (RMB per tonne)	25,493	26,357	24,961
Revenue (thousands of RMB)	558,298	298,204	361,167

In 2008, 2009 and 2010, our net profit totaled RMB495.4 million, RMB110.0 million and RMB229.9 million, respectively.

Our Directors confirm that there was no material adverse change in our financial or trading positions or prospects during the period between December 31, 2010 and the Latest Practicable Date.

COMPETITIVE STRENGTHS

We believe the following strengths of our company distinguish us from our competitors and enable us to compete effectively in the oilfield equipment and services industry:

- market leadership in key oilfield equipment products and services;
- established relationships with major international oil and gas companies supported by proven product quality;
- significant benefits derived from a vertically integrated business model;
- innovation-driven research and development capabilities; and
- experienced management team with a proven track record.

SUMMARY

BUSINESS STRATEGY

Our long-term objective is to become a leading integrated global oilfield equipment and service provider focusing on high-end products and services. We intend to achieve this objective by implementing a business strategy with the following key aspects:

- continue to focus on higher-end products in existing product categories;
- further expand into drilling and other oilfield services areas;
- solidify leadership in the PRC market through capacity upgrades and vertical integration;
- expand international footprint at strategic locations; and
- actively seek strategic acquisitions and alliances.

SUMMARY

SUMMARY HISTORICAL COMBINED FINANCIAL INFORMATION

You should read the summary historical combined financial information set forth below in conjunction with our combined financial statements included in the Accountant's Report set forth in Appendix I to this prospectus, which are prepared in accordance with HKFRS, together with the accompanying notes thereto. Operating results in any historical period may not be indicative of the results that may be expected in any future period.

Combined Income Statements

	For the year ended December 31,		
	2008	2009	2010
(In thousands of RMB)			
Revenue	1,701,380	1,006,656	1,356,462
Cost of sales	(935,615)	(621,083)	(799,856)
Gross profit	765,765	385,573	556,606
Selling and marketing expenses	(88,820)	(82,684)	(79,026)
Administrative expenses	(109,503)	(138,103)	(172,210)
Other income	7,273	—	—
Other gains—net	853	2,760	15,085
Operating profit	575,568	167,546	320,455
Finance income	1,830	1,743	700
Finance costs	(15,177)	(19,699)	(30,476)
Finance costs—net	(13,347)	(17,956)	(29,776)
Share of results of:			
—Associates	999	(353)	1,258
—Jointly controlled entities	(1,646)	(13,532)	(16,756)
Profit before income tax	561,574	135,705	275,181
Income tax expense	(66,142)	(25,689)	(45,275)
Profit for the year	495,432	110,016	229,906
Profit attributable to:			
Equity holders of the Company	437,290	60,627	178,369
Non-controlling interests	58,142	49,389	51,537
	495,432	110,016	229,906
Dividends	108,255	9,001	10,000

SUMMARY

Combined Balance Sheets

	As of December 31,		
	2008	2009	2010
(In thousands of RMB)			
ASSETS			
Non-current assets			
Property, plant and equipment	470,708	608,014	733,292
Lease prepayments	46,698	45,691	55,788
Intangible assets	12,190	12,030	11,780
Investments in associates	64,135	63,782	78,811
Investments in jointly controlled entities	19,203	15,509	6,279
Deferred income tax assets	10,539	24,265	37,551
Other long-term assets	5,513	625	219
	<u>628,986</u>	<u>769,916</u>	<u>923,720</u>
Current assets			
Inventories	327,631	333,182	365,522
Trade and other receivables	812,247	919,166	1,179,748
Restricted cash	33,930	23,997	52,570
Cash and cash equivalents	220,468	141,603	246,936
	<u>1,394,276</u>	<u>1,417,948</u>	<u>1,844,776</u>
Total assets	<u>2,023,262</u>	<u>2,187,864</u>	<u>2,768,496</u>
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	—	—	811
Other reserve	196,498	211,007	(82,328)
Retained earnings	578,368	619,343	776,116
Currency translation differences	122	(9,002)	(11,803)
	<u>774,988</u>	<u>821,348</u>	<u>682,796</u>
Non-controlling interests	<u>153,837</u>	<u>191,839</u>	<u>222,813</u>
Total equity	<u>928,825</u>	<u>1,013,187</u>	<u>905,609</u>
LIABILITIES			
Non-current liabilities			
Borrowings	15,712	12,078	1,200
Deferred income tax liabilities	50,357	60,991	77,061
Deferred revenue	—	—	13,650
	<u>66,069</u>	<u>73,069</u>	<u>91,911</u>
Current liabilities			
Deferred revenue	1,287	5,574	405
Trade and other payables	725,200	662,784	953,422
Current income tax liabilities	5,662	6,932	13,592
Derivative financial instruments	—	—	133
Borrowings	296,219	426,318	803,424
	<u>1,028,368</u>	<u>1,101,608</u>	<u>1,770,976</u>
Total liabilities	<u>1,094,437</u>	<u>1,174,677</u>	<u>1,862,887</u>
Total equity and liabilities	<u>2,023,262</u>	<u>2,187,864</u>	<u>2,768,496</u>
Net current assets	<u>365,908</u>	<u>316,340</u>	<u>73,800</u>
Total assets less current liabilities	<u>994,894</u>	<u>1,086,256</u>	<u>997,520</u>

SUMMARY

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$2.89 per Share, which represents the mid-point of the proposed Offer Price range of HK\$2.50 to HK\$3.27 per Share, will be approximately HK\$1,074 million. In the event that the Offer Price is determined at the low end and high end of the indicative Offer Price range, the net proceeds from the issue of new Shares will be approximately HK\$925 million and HK\$1,224 million, respectively. Based on an Offer Price of HK\$2.89 per Share (being the mid-point of the Offer Price range), we currently intend to apply these net proceeds for the following purposes:

- approximately 27%, or HK\$290 million, for the expansion of our coating materials and services business, including
 - approximately 13%, or HK\$143 million, for the construction of line pipe coating services plants in the PRC;
 - approximately 11%, or HK\$117 million, for the construction of OCTG coating services plants overseas; and
 - approximately 3%, or HK\$29 million, for the expansion and upgrade of production capacity for coating materials;

we expect approximately 14%, or HK\$147 million, to be applied by the end of 2011 and the remaining 12% to be applied in 2012;

- approximately 21%, or HK\$223 million, for the expansion of our oilfield services business, including payments towards purchases of drilling rigs. We expect all of the net proceeds in this category to be applied by the end of 2012;
- approximately 20%, or HK\$211 million, for the repayment of bank borrowings, including a principal of HK\$156 million with interest rate of HIBOR plus 5% and a maturity date on the earlier of (i) the redemption of the equity interest of UMW and (ii) the listing of our Company;
- approximately 17%, or HK\$188 million, for the repayment of outstanding balances due to related parties;
- approximately 11%, or HK\$118 million, for upgrading of production capacity for our drill pipes
 - approximately 6%, or HK\$64 million, for upgrading of existing drill pipe production lines to improve production efficiency and to develop production capabilities in high-end products;
 - approximately 5%, or HK\$54 million, for development of production capabilities in “intelligent” drill pipes;

we expect approximately 6%, or HK\$64 million, to be applied by the end of 2011 and the remaining 5% to be applied in the first half of 2012; and

- approximately 4%, or HK\$45 million, for working capital and general corporate purposes.

SUMMARY

For more information on our planned production capacity and rig count after the Global Offering, see “Business—Business Strategy.”

If the Offer Price is set above the mid-point of the proposed Offer Price range, we intend to apply the additional amounts towards the expansion of our oilfield services segment, merger and acquisition activities and repayment of bank borrowings. If the Offer Price is set below the mid-point of the proposed Offer Price range, we intend to reduce the amounts allocated to the repayment of bank borrowings and the upgrading of production capacity for drill pipes. To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into our accounts with licensed financial institutions.

Hilong Group Limited, one of our Controlling Shareholders, (in such capacity, the “Selling Shareholder”) will be selling a portion of its Shares pursuant to the exercise of the Over-allotment Option by the Sole Global Coordinator on behalf of the International Underwriters, after consultation with the Joint Bookrunners as part of the Global Offering. If the Over-allotment Option is exercised in full, we estimate that the aggregate net proceeds to the Selling Shareholder from the Global Offering (after deducting underwriting commissions and estimated expenses payable by it in connection with the Global Offering), assuming an Offer Price of HK\$2.89 per Share, will be approximately HK\$168 million. In the event that the Offer Price is determined at the low end and high end of the indicative Offer Price range, assuming a full exercise of the Over-allotment Option, the net proceeds to the Selling Shareholder from the Global Offering will be approximately HK\$146 million and HK\$190 million, respectively. We will not receive any of the proceeds from the sale of Shares by the Selling Shareholder in the Global Offering.

PRE-IPO SHARE OPTION SCHEME

We adopted a Pre-IPO Share Option Scheme which became effective on January 1, 2011, details of which are set out in Appendix VI headed “Statutory and General Information—Pre-IPO Share Option Scheme” to this prospectus.

As at the Latest Practicable Date, options to subscribe for an aggregate of 46,322,000 Shares have been granted to 225 grantees under the Pre-IPO Share Option Scheme. Assuming that all of the options granted under the Pre-IPO Share Option Scheme are exercised in full on the Listing Date, this would have a dilutive effect on the shareholdings of our Company of approximately 2.8%. If calculated based on (i) 1,646,322,000 Shares, the assumed number of Shares to be in issue and outstanding throughout the year ended December 31, 2010 solely for purposes of this calculation, comprising 1,600,000,000 Shares to be in issue immediately after the Global Offering and 46,322,000 Shares to be issued upon the exercise of all the options granted under the Pre-IPO Share Option Scheme, and (ii) our combined profit attributable to equity holders of the Company for the year ended December 31, 2010, our earnings per Share for the year ended December 31, 2010 would not have materially and adversely decreased. Pursuant to the terms of the Pre-IPO Share Option Scheme, no grantee may exercise the outstanding options granted under the Pre-IPO Share Option Scheme prior to the end of the stabilization period, being the 30th day after the last day for lodging applications under the Public Offer. In addition, the grantee may only exercise the options under the Pre-IPO Share Option Scheme once during the period from the date of our formal application for listing to the date on which the price range of the Offer Price is determined on the condition that the total number of options exercised during such period by a particular grantee shall be on a pro-rata basis as determined by the Board with reference to the number of existing Shares to be offered pursuant to the Global Offering. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing Date. Starting in 2011, we expect to incur additional costs and expenses relating to our share option scheme. None of the grantees has exercised the options under the Pre-IPO Share Option Scheme during the period from the date of our formal application for listing to the Latest Practicable Date.

DIVIDENDS

We declared dividends in the amount of RMB108.3 million, RMB9.0 million and RMB10.0 million in 2008, 2009 and 2010, respectively.

We will not declare or pay any dividends other than from distributable profit attributable to equity holders. Our shareholders may approve the distribution of dividends in a general meeting, but the amount may not exceed

SUMMARY

the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as appear to our Directors to be justified by our profits and may also declare half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of dividends.

The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our articles of association, the Companies Law, applicable laws and regulations and other relevant factors.

OFFERING STATISTICS⁽¹⁾

	<u>Based on an Offer Price of HK\$2.50 per Share</u>	<u>Based on an Offer Price of HK\$3.27 per Share</u>
Market capitalization of our Shares ⁽²⁾	HK\$4,000 million	HK\$5,232 million
Unaudited pro forma adjusted combined net tangible asset value per Share ⁽³⁾	HK\$1.07	HK\$1.26

(1) All statistics in this table are presented based on the assumption that options granted under the Pre-IPO Share Option Scheme and the Over-allotment Option are not exercised.

(2) The calculation of market capitalization is based on 1,600,000,000 Shares expected to be in issue and outstanding following the completion of the Global Offering.

(3) The unaudited pro forma adjusted combined net tangible asset value per Share is arrived at after the adjustments referred to in the section entitled Appendix II—"Unaudited Pro Forma Financial Information" and on the basis of 1,600,000,000 Shares expected to be in issue and outstanding following the completion of the Global Offering.

RISK FACTORS

There are certain risks involved in our business and operations and in connection with the Global Offering. Such risks can be categorized into (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering. Please refer to "Risk Factors" in this prospectus for further details.

Risks Relating to Our Business and Industry

- Declines in domestic and international oil and natural gas prices, or domestic and international exploration, drilling and production activities, may adversely affect our profitability.
- The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations.
- It is difficult to evaluate our results of operations and future prospects due to the significant fluctuation in our historical performance and our limited operating history.
- We may fail to renew our certification as a supplier of CNPC, Sinopec, or our other key customers.
- We may fail to secure engagements for new projects through competitive bidding.
- We depend on a limited number of customers.
- We do not have long-term purchase contracts from our customers.
- We may experience shortages or price increases of raw materials and components.
- We depend on a limited number of suppliers.
- We are vulnerable to the delay or rescheduling of oil and gas pipeline projects.

SUMMARY

- We face intense competition in our industry, and failure to compete effectively may adversely affect our business and prospects.
- Loss of or failure to renew the API Monogram, NS-1 Certifications, or other licenses certifying that our products meet benchmark quality standards could materially and adversely affect our business.
- If we fail to develop or adopt new production technologies, our business and prospects may be harmed.
- Our investment in the development of new technologies may not lead to commercial success.
- Our historical outstanding trade receivables and the turnover days of our trade receivables have been relatively high.
- Any failure in accurately predicting product demand may result in high inventory balances and inventory turnover days, which could materially and adversely affect our business, financial condition and results of operations.
- Power shortages or substantial increase in energy costs could have an adverse impact on our operations.
- Our business strategy of growth through investments, acquisitions and strategic cooperation may not succeed.
- We face certain risks inherent in our overseas operations and risks associated with the international expansion of our business.
- We cannot assure you that we will be able to effectively manage or obtain adequate financing for our planned expansion.
- Protectionist measures such as initiation of anti-dumping and anti-subsidy proceedings and imposition of anti-dumping and/or countervailing duties by governments in our overseas markets could materially and adversely affect our export sales.
- We may be unable to prevent possible resale or transfer of our products to countries, governments, entities, or persons targeted by United States economic sanctions.
- Our products may contain undetected flaws or defects. Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products.
- The oil and gas equipment manufacturing industry is subject to regulation, and we may not successfully obtain and maintain the necessary regulatory permits, approvals or clearance for the production and sale of our products in certain markets.
- We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive.
- Failure to maintain a safety performance standard that is acceptable to our customers could result in the loss of future business.
- Our business operations and manufacturing facilities may be adversely affected by unexpected interruptions in production, operating hazards and natural disasters.
- Our business operations involve risks and occupational hazards.
- We face certain risks relating to the real properties that we own, use or lease.

SUMMARY

- If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our cost of sales could increase.
- Severe weather conditions may affect our operations.
- We may not maintain sufficient insurance coverage for the risks associated with our business operations.
- Our interests may conflict with those of Mr. Zhang, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests.
- Any material disputes between us and our joint venture partners may adversely affect the results of operations and financial condition of the relevant joint venture and, if unresolved, could potentially lead to a termination of that joint venture.
- If we are unable to attract and retain members of our senior management team and other skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted.
- Failure to protect our intellectual property rights may materially and adversely affect our competitive position and operations and we may be exposed to infringement or misappropriation claims by third parties.
- Our historical dividends may not be indicative of our future dividends.
- An occurrence of a widespread health epidemics and other outbreaks could have a material adverse effect on our results of operations.

Risks Relating to the PRC

- Adverse changes in China's economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which in turn, could materially and adversely affect our business, financial condition and results of operations.
- PRC regulation of loans and direct investments by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from this offering to make loans or additional capital contributions to our PRC operating subsidiaries.
- Fluctuations in exchange rate may have a material adverse effect on your investment.
- Failure to comply with the SAFE regulations relating to registration of interests by our PRC resident beneficial owners may adversely affect our business operations.
- The payment of dividends by our operating subsidiaries in China is subject to restrictions under PRC law.
- Any change in the preferential tax treatment we currently enjoy in the PRC may have an adverse impact on our results of operations.
- We face uncertainty with respect to transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.
- There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations.

SUMMARY

- It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our Directors.
- The implementation of the PRC Labor Contract Law and the Implementation Regulation for the PRC Labor Contract Law may increase our operating expenses and may adversely affect our business and results of operations.

Risks Relating to the Global Offering

- Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.
- Issuance of Shares pursuant to the Pre-IPO Share Option Scheme will result in dilution to your shareholding in our Company and dilution of the earnings per share.
- If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected.
- The liquidity and market price of our Shares following the Global Offering may be volatile, which may result in substantial losses for investors purchasing our Shares in the Global Offering.
- Our Share price may be affected if additional Shares are sold by our substantial shareholder or are issued by us.
- The Laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong.
- Purchase of Offer Shares will incur an immediate and substantial dilution as a result of the Global Offering.
- We strongly caution you not to place any reliance on any information contained in press articles or other media regarding our Global Offering.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them
“Articles of Association”, “Articles”	the articles of association of our Company adopted upon incorporation, as amended from time to time
“associates”	has the meaning ascribed thereto under the Listing Rules
“BIS”	the Bureau of Industry and Security of the United States Department of Commerce
“Board of Directors” or “Board”	the board of directors of our Company
“BOCOM International”	BOCOM International Securities Limited, a Joint Bookrunner and a Joint Lead Manager of the Global Offering
“Business Day”	any day (other than Saturday and Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 1,199,000,000 Shares to be made upon capitalization of an amount of HK\$119,900,000 standing to the credit of the share premium account of our Company as described under “Written resolutions of our Company’s shareholders passed on February 28, 2011” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“CNPC”	China National Petroleum Corporation, an independent third party, and its subsidiaries
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and amended from time to time) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

DEFINITIONS

<p>“Company”, “our Company”, “Group”, “our Group”, “we” or “us”</p>	<p>Hilong Holding Limited, a company incorporated in the Cayman Islands on October 15, 2008 with limited liability, or where the context refers to any time prior to its incorporation, those businesses and operations which were assumed by it, including, where the context requires, any of the businesses and operations that is or was carried on by our predecessors (including Huashi Hailong and Hailong International) or any member of our Group</p>
<p>“connected person”</p>	<p>has the meaning ascribed to it under the Listing Rules</p>
<p>“Controlling Shareholders”</p>	<p>has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means the controlling shareholders of our Company, being Mr. Zhang, Hilong Group Limited and Standard Chartered Trust (Cayman) Limited. See “Relationship with Our Controlling Shareholders”</p>
<p>“Director(s)”</p>	<p>the director(s) of our Company</p>
<p>“EIA”</p>	<p>U.S. Energy Information Administration</p>
<p>“First Shanghai”</p>	<p>First Shanghai Securities Limited, a co-manager of the Global Offering</p>
<p>“GDP”</p>	<p>gross domestic product</p>
<p>“Global Offering”</p>	<p>the Public Offer and the International Offering</p>
<p>“Green Application Form(s)”</p>	<p>the application form(s) to be completed by the White Form eIPO Service Provider designated by our Company</p>
<p>“Hailong International”</p>	<p>Hailong International (L) Ltd., a company limited by shares incorporated in Malaysia on May 23, 2003 and an entity controlled by Mr. Zhang</p>
<p>“HIBOR”</p>	<p>Hong Kong Interbank Offer Rate</p>
<p>“Hilong Group”</p>	<p>Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) (formerly known as Shanghai Hilong Petroleum Equipment Co., Ltd. (上海海隆石油裝備有限公司), a wholly foreign owned enterprise with limited liability incorporated in the PRC on January 14, 2005 and a subsidiary of the Company</p>
<p>“HKFRSs”</p>	<p>Hong Kong Financial Reporting Standards</p>
<p>“HKSCC”</p>	<p>Hong Kong Securities Clearing Company Limited</p>
<p>“HKSCC Nominees”</p>	<p>HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC</p>
<p>“Hong Kong” or “HK”</p>	<p>the Hong Kong Special Administrative Region of the PRC</p>
<p>“Hong Kong dollars”, “HK dollars” or “HK\$”</p>	<p>Hong Kong dollars, the lawful currency of Hong Kong</p>
<p>“Hong Kong Share Registrar”</p>	<p>Computershare Hong Kong Investor Services Limited</p>

DEFINITIONS

“Huashi Hailong”	Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司), an entity controlled by Mr. Zhang
“independent third party/parties”	person(s) or company/companies and their respective ultimate beneficial owner(s), which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, are independent of the Company and its connected person(s) (as defined in the Listing Rules)
“International Offer Shares”	the 360,000,000 new Shares initially being offered by us for subscription at the Offer Price under the International Offering, subject to adjustment as described in the section headed “Structure of the Global Offering”
“International Offering”	the conditional placing by the International Underwriters of the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares, as further described in the section headed “Structure of the Global Offering”
“International Underwriters”	the several underwriters of the International Offering who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering and to be entered into between us, the Selling Shareholder, Mr. Zhang, the International Underwriters and the Joint Bookrunners on or around April 14, 2011
“Joint Bookrunners” or “Joint Lead Managers”	Morgan Stanley, Standard Chartered and BOCOM International
“Latest Practicable Date”	March 31, 2011, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Memorandum or Memorandum of Associations”	the memorandum of association of the Company adopted upon incorporation, as amended from time to time
“MOF”	the Ministry of Finance of the PRC
“MOFCOM”	the Ministry of Commerce of the PRC

DEFINITIONS

“Morgan Stanley”	..... Morgan Stanley Asia Limited, the Sole Global Coordinator, the Sole Sponsor, a Joint Bookrunner and a Joint Lead Manager of the Global Offering
“Mr. Zhang”	..... Mr. Zhang Jun (張軍), our chairman of the Board of Directors and chief executive officer and a Controlling Shareholder of our Group
“NDRC”	..... the National Development and Reform Commission of the PRC
“OECD”	..... Organization for Economic Co-operation and Development
“OPEC”	..... Organization of Petroleum Exporting Countries
“Offer Price”	..... the final Hong Kong dollar price per Share (exclusive of brokerage, SFC transaction levy, and Stock Exchange trading fee) of not more than HK\$3.27 and expected to be not less than HK\$2.50, such price to be agreed upon between us and the Joint Bookrunners (on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	..... the Public Offer Shares and the International Offer Shares
“Over-allotment Option”	..... the option expected to be granted by the Selling Shareholder to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters, after consultation with the Joint Bookrunners under the International Underwriting Agreement pursuant to which the Selling Shareholder may be required to sell up to an aggregate of 60,000,000 additional Shares, representing in aggregate approximately 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price
“PRC” or “China”	..... the People’s Republic of China and, except where the context requires and only for the purpose of this prospectus, references in this prospectus to the PRC or China do not include Taiwan, Hong Kong or Macau
“Pre-IPO Share Option Scheme”	..... a share option scheme adopted by us, effective on January 1, 2011, under which we have granted options to subscribe for the Shares to certain employees, executives or officers of our Company or any other persons who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of our subsidiaries, details of which are described in Appendix VI—“Statutory and General Information—E. Pre-IPO Share Option Scheme” to this prospectus
“Price Determination Date”	..... the date, expected to be on or around April 14, 2011 but no later than April 19, 2011 on which the Offer Price is fixed for the purposes of the Global Offering
“Property Valuer”	..... Jones Lang LaSalle Sallmanns Limited
“Public Offer”	..... the offer of Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	..... the 40,000,000 new Shares (subject to adjustment) being offered by us for subscription pursuant to the Public Offer

DEFINITIONS

“Public Offer Underwriters”	the several underwriters of the Public Offer listed in the section titled “Underwriting—Public Offer Underwriters”
“Public Offer Underwriting Agreement”	the underwriting agreement dated April 7, 2011 relating to the Public Offer entered into by us, the Selling Shareholder, Mr. Zhang, the Public Offer Underwriters and the Joint Bookrunners
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization of the business comprising our Group, as described in the section headed “History and Reorganization” in the prospectus
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration of Foreign Exchange of the PRC
“SAIC”	the State Administration for Industry and Commerce of the PRC
“SAT”	the State Administration of Taxation of the PRC
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Selling Shareholder”	Hilong Group Limited, one of our Controlling Shareholders
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares issued by our Company, with a nominal value of HK\$0.10 each and for which application have been made for the granting of listing, and permission to deal in, on the Stock Exchange
“Sinopec”	Sinopec Group Company, an independent third party, and its subsidiaries
“Sole Global Coordinator”	Morgan Stanley Asia Limited
“Sole Sponsor”	Morgan Stanley Asia Limited
“Stabilizing Manager”	Morgan Stanley Asia Limited
“Standard Chartered”	Standard Chartered Securities (Hong Kong) Limited, a Joint Bookrunner and a Joint Lead Manager of the Global Offering
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its affiliates acting on its behalf) and the Selling Shareholder, pursuant to which the Selling Shareholder will agree to lend up to

DEFINITIONS

60,000,000 Shares to the Stabilizing Manager on terms set forth therein

- “Stock Exchange” The Stock Exchange of Hong Kong Limited
- “subsidiary” or “subsidiaries” has the meaning ascribed to it in section 2 of the Companies Ordinance
- “substantial shareholder” a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any of our general meetings
- “Track Record Period” the period comprising the three years ended December 31, 2010
- “UMW” UMW Holding Berhad, a public company listed on the Bursa Malaysia Securities Berhad which, through UMW China Venture (L) Ltd., one of its subsidiaries, holds a minority equity interest in our Company
- “Underwriters” the Public Offer Underwriters and the International Underwriters
- “Underwriting Agreements” the Public Offer Underwriting Agreement and the International Underwriting Agreement
- “United States” or “U.S.” The United States of America, including the District of Columbia, its territories and possessions
- “US\$” or “U.S. dollars” United States dollars, the lawful currency of the United States
- “U.S. Economic Sanctions Laws” includes all U.S. sanctions administered by OFAC and BIS, including but not limited to U.S. regulations codified in Chapter V of Title 31, U.S. Code of Federal Regulations, all U.S. Executive orders, proclamations, and regulations issued under the authority of the Trading with the Enemy Act, the International Emergency Economic Powers Act, the International Security and Development Cooperation Act, the Antiterrorism and Effective Death Penalty Act, the Cuban Liberty and Democratic Solidarity (Libertad) Act and the United Nations Participation Act, the aforementioned statutes themselves and all orders, licenses or rules issued under the authority of any of the foregoing
- “U.S. Securities Act” the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
- “White Form eIPO” the application for Public Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider, www.eipo.com.hk
- “White Form eIPO Service Provider” Computershare Hong Kong Investor Services Limited
- “%” per cent

The English language names of certain entities referred to in this prospectus are provided for your convenience only. Some of these entities do not have registered English language names.

GLOSSARY

This glossary contains certain technical terms used in this prospectus in connection with our Company. Such terms and their meanings may not correspond to standard industry definitions or usage.

- “API Monogram” a logo licensed by the American Petroleum Institute, or API, to equipment suppliers which manufacture products in accordance with API standard. Licensed supplier may apply the API Monogram to their product, which constitutes a representation and warranty by the licensed supplier that, as of the date indicated, the product is manufactured in accordance with the API standard
- “API standard” the benchmark standard of American Petroleum Institute, or API, for the manufacturing of drill pipes and other oil and gas equipment. API is the primary trade association of the oil and gas industry in the United States and promotes the standardization of oilfield equipment by setting and maintaining more than 500 standards and recommended practices
- “bottom hole assembly” the underground part of a drilling rig consisting of a drill bit which is used to break up the rock formations, drill collars which are heavy, thick-walled tubes used to apply weight to the drill bit, and drilling stabilizers which keep the drilling assembly centered in the hole
- “casing” a large diameter pipe that is assembled and inserted into a newly drilled section of a borehole and typically held into place with cement
- “double shoulder drill pipe” or
“DSDP” a type of drill pipe with two tool joints on each side of the pipe
- “drill pipe” a type of hollow, thick-walled, steel piping used on drilling rigs that functions as the connection between the drilling rig surface equipment and the bottom hole assembly, including the drill bit
- “drilling rig” a machine which creates holes and/or shafts in the ground
- “Dual tubing completion” a single well that produces from two separate pay-zones at the same time. Production from each zone is segregated by running two tubing strings with packers inside the single string of production casing, or by running one tubing string with a packer through one zone while the other is produced through the annulus.
- “hardbanding” a welding process that applies welding wires onto the tool joint of a drill pipe to enhance its strength and resistance to abrasion and friction
- “heavy weight drill pipe” or
“HWDP” used to make the transition between the drill collars and drill pipe; the function of the HWDP is to provide a flexible transition between the drill collars and the drill pipe; this helps to reduce the number of fatigue failures seen directly above the bottom hole assembly; a secondary use of HWDP is to add additional weight to the drill bit
- “high torque-resistant drill pipe” or
“HTDP” a type of drill pipe with specially designed tool joints which help to enhance the torque resistance of the drill pipe

GLOSSARY

“low temperature drill pipe” or “LTDP”	a type of drill pipe with capability to perform under extreme low temperature to facilitate the oil and gas drilling activities in low temperature regions
“OCTG”	Oil Country Tubular Goods, pipe and tube products used in oil and gas industry, which include drill pipe, tubing and casing
“pile up”	paraffin, pitch, water scale and crude residues that accumulate on the internal surface of pipe and tube products used in oil and gas industry
“sour service drill pipe” or “SSDP”	a type of drill pipe with capability of resistance to hydrogen sulfide stress corrosion to facilitate oil and gas drilling activities in sulfur-rich terrains
“tool joint”	the enlarged and threaded end of the joint of a drill pipe
“tubing”	a metal tube used in a wellbore through which production fluids are produced
“turnkey contract”	an oilfield service engagement whereby a contractor undertakes the design, construction and project management jobs. The engagement typically concludes upon the stage when the related project is available for immediate use. A turnkey contract for drilling services typically provides for payment for the contractor’s services upon the completion of the well drilling. In such a turnkey contract, the contractor generally furnishes drilling rig, rig crew and all other drilling related resources and controls the entire drilling operation
“upsetting”	a forging process to increase the thickness of the wall of a drill pipe
“welding wires”	solid, soft steel wires used for welding onto the tool joint of a drill pipe to enhance its strength
“West Texas Intermediate”	a type of crude oil used as benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange’s oil futures contracts

RISK FACTORS

This offering involves certain risks. Prior to making an investment decision, you should carefully consider all of the information in this prospectus, including, but not limited to, the risks factors described below. Our business could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of our Shares may decline due to any of these risks and uncertainties and may cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Declines in domestic and international oil and natural gas prices, or domestic and international exploration, drilling and production activities, may adversely affect our profitability.

Demand for our products and services depends significantly on the number of domestic and worldwide oil and gas wells being drilled, completed and re-worked, as well as the depth and drilling conditions of these wells. The level of such drilling activities in turn depends on the level of capital spending by major oil and gas companies. These expenditures are sensitive to the industry's view of future economic growth and the resulting impact on demand for oil and natural gas. The worldwide deterioration in the financial and credit markets, which began in the second half of 2008, resulted in diminished demand for oil and gas and significantly lowered oil and natural gas prices. This caused many of our customers, particularly international customers, to reduce or delay their oil and gas exploration and production spending in 2009, which consequently reduced the demand for our products, and exerted downward pressure on the prices of our products and services. If the global economic downturn continues for a prolonged period or if there is little or no economic growth, it will likely result in further reductions of exploration and production expenditures by our customers, causing further declines in the demand for, and prices of, our products and services. This could result in a material adverse effect on our financial condition, results of operations and cash flows.

Capital spending on drill pipes and other drilling-related products used for oil and natural gas exploration, drilling and production activities is driven in part by the prevailing prices for oil and natural gas and the perceived stability and sustainability of those prices. Oil and natural gas prices have also been subject to significant volatility in recent years due to numerous factors beyond our control, including:

- demand for hydrocarbons, which is affected by worldwide population growth, economic growth rates and general economic and business conditions;
- the ability of the OPEC to set and maintain production levels for oil;
- oil and gas production by non-OPEC countries;
- the level of excess production capacity;
- political and economic uncertainty and sociopolitical unrest;
- the level of worldwide oil and gas exploration and production activity;
- the cost of exploring for, producing and delivering oil and gas;
- technological advances affecting energy consumption; and
- weather conditions.

The current global economic downturn has reduced worldwide demand for oil and natural gas and resulted in significantly lower crude oil and natural gas prices compared to their record highs in July 2008. The significant decline in oil and natural gas prices reduced many of our customers' activities and spending on our services and products in 2009. Any declines in the price of oil and natural gas, even for a short period of time, may reduce or curtail expenditure by oil and gas companies in connection with exploration, drilling and production activities, which may result in lower sales volumes and prices for our drilling-related products in the PRC and overseas and materially and adversely affect our business, financial condition and results of operations.

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Decreased demand for our products would be expected to result not only from periods of decreased capital spending and activities in exploration, drilling and production, but also from the resulting build up of customer inventory, as certain drilling-related products associated with idle rigs such as drill pipes can be re-used on active rigs instead of new purchases from us.

The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations.

Certain recent adverse developments in the global financial markets have impacted the global economy. These developments include, among other things, general slow-down of economic growth in China, the U.S. and elsewhere globally and substantial volatility and tightening of liquidity in financial and commodity markets. International oil and gas prices also experienced significant fluctuations and decrease, resulting in lower level of oil and gas production activities globally and the decrease in demand for oil and gas products and services.

These developments have adversely affected our business and operating results in a number of respects. In 2009, our revenue decreased significantly by 40.8% and revenue generated from the international market decreased to represent 15.8% of our total revenue in 2009, compared to 38.5% in 2008. Such decreases were primarily associated with the significant decreases in sales volume and average selling price of drill pipes sold in the international market. As our staff costs, utility charges and depreciation of fixed assets remained stable in 2009 despite the significant decrease in revenue, our gross profit margin decreased in 2009. Our inventory turnover days increased from 103 days in 2008 to 194 days in 2009, reflecting the significant decrease in sales in 2009. Our trade receivables turnover days increased from 85 days in 2008 to 200 days in 2009, reflecting the longer period required for our key customers to settle trade receivables. We also recorded impairment in inventory and trade receivables as a result of these negative developments. Some of our domestic and international customers, including those with significant transaction value and receivable balances with us, may not have fully recovered from the global financial crisis. See “Financial Information”.

It is difficult to predict how long the impact of the global financial crisis will continue and which of and how our customers, markets and businesses may continue to be subject to such impact. As a result, the global financial crisis may continue to have material adverse effect upon our business, financial condition and results of operations.

It is difficult to evaluate our results of operations and future prospects due to the significant fluctuation in our historical performance and our limited operating history.

We entered coating business in 2002 and drill pipe manufacturing business in 2005. Accordingly, we have a limited operating history for potential investors to evaluate our business prospects. As our historical performance experienced significant fluctuations during the Track Record Period, our historical operating results may not be an indication of our future performance.

Our revenue increased significantly in 2008 and reached its historically highest level in 2008, and revenue derived from the international market as a percentage of our total revenue increased to 38.5% in 2008, both reflecting the high oil and gas prices in 2008. International oil price reached an unprecedented peak level of US\$145 per barrel in July 2008, and the global oil and gas drilling activities also increased significantly. These developments contributed to the unprecedented strong demand in the global market for oil and gas related products and services. However, in 2009, our revenue decreased significantly and revenue generated from the international market decreased to represent 15.8% of our total revenue in 2009. Such decrease was the result of the recent adverse developments in the global financial markets which have impacted the global economy, coupled with the associated decrease in global oil and gas prices, lower level in oil and gas production activities globally and the decrease in demand for oil and gas products and services. See “—The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations.” In addition, our historical performance has also been affected by various company-specific factors, such as our utilization rate and expansion of capacity and product and service mix. See “Financial Information—Factors Affecting Our Results of Operations.”

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As a result, our historical operating results may not provide a meaningful basis for evaluating our future business performance, results of operations and financial condition. We may not be able to continue our growth at similar rates, or at all.

We may fail to renew our certification as a supplier of CNPC, Sinopec, or our other key customers.

We are approved by China Petroleum Sales Co., Ltd., or CPSC, as a member of www.energyahead.com, an E-Commerce portal website. We understand that CPSC evaluates and screens suppliers on behalf of CNPC, and as such, membership to www.energyahead.com permits its members to provide equipment and services to the major oil and gas fields of CNPC. The renewal of membership is subject to annual performance evaluations conducted by CPSC. In addition, we are a member of the List of Sinopec Suppliers (a group of suppliers designated by Sinopec Market and Equipment Department). Such memberships are necessary for us to sell our products to the subsidiaries or branch oilfields of CNPC and Sinopec, which have been our major customers in China. Our membership in the List of Sinopec Suppliers has no expiration date. Sinopec maintains an evaluation system to examine the performance of its network suppliers, including the product quality, product price, delivery and after-sales service. A supplier's membership may be suspended if such supplier, among other things, delays delivery, has operational problems, is unable to provide after-sales service, or is involved in litigation with an affiliate of Sinopec, or if the products it provides fail to meet relevant quality standards. Sinopec will terminate the supplier's membership if such supplier provided fraudulent information on a membership application, has unsatisfactory financial results, or is unable or refuses without reason to perform its contractual obligations. In the event that our membership is suspended or terminated by Sinopec, or we are unable to renew our membership with www.energyahead.com, then our business, financial condition and results of operations may be materially and adversely affected.

In addition, most of our major customers require us to first pass a qualification process before we can become a supplier to that customer. We cannot assure you that we will be able to pass such qualification process for new products with our existing customers or obtain necessary approvals for our products from any new customers. Even if we can ultimately pass such qualification process we cannot assure you that such approvals can be obtained in a timely manner. Furthermore, a number of our major customers perform audit periodically on our Company, during which they review our systems and procedures for the various stages of our manufacture process. We cannot assure you that we will be able to continue to pass such audits without incurrence of material expenses to implement corrective measures, or in a timely manner, or at all. In addition, even if we become an approved supplier of a company, it does not necessarily mean that we will receive purchase orders from that company. If we fail to become an approved supplier of our potential customers, or if we are unable to obtain or maintain such approval in a timely manner or without incurrence of material expenses to implement corrective measures, we may not be able to execute our expansion plans and our business prospects and results of operations may be materially and adversely affected.

We may fail to secure engagements for new projects through competitive bidding.

Revenue from our oilfield services segment is primarily generated on a project-by-project basis from oil well drilling projects that are non-recurring in nature. We generally secure engagements for projects through a bidding and negotiation process. As a result, our financial performance is dependent on our ability to maintain our bidding eligibility, submit competitive bids and continually secure engagements. In addition, due to the nature of the oilfield service industry, the value of projects that we are able to secure may fluctuate from year to year. We cannot assure you that we will continue to secure new engagements or that these engagements will be profitable. If we are unable to secure profitable engagements, our business, financial performance and financial position will be adversely affected.

We depend on a limited number of customers.

Our customers primarily consist of major PRC and international oil and gas companies. Based on contract party, aggregate revenue attributable to our five largest customers represented approximately 35.8%, 27.2% and 32.7% of our revenue for 2008, 2009 and 2010, respectively. Revenue attributable to our largest customer during

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the Track Record Period, represented 14.9%, 15.0% and 10.3% of our revenue for the same period respectively. If calculated based on customer group including affiliated companies under the same control or ownership, based on our knowledge of our customers' ownership information, in 2008, 2009 and 2010, (i) our five largest customer groups accounted for approximately 74.8%, 59.2% and 57.5% of our revenue, respectively, and (ii) revenue attributable to our largest customer group represented 44.4%, 28.6% and 25.5% of our revenue, respectively. See "Business—Customers." We cannot assure you that we will be able to maintain or improve our relationships with these customers, or that we will be able to continue to supply products to these customers at current levels, or at all. In addition, any decline in our major customers' businesses could lead to a decline in purchase orders from these customers. If any of our key customers were to substantially reduce the size or amount of the orders they place with us or were to terminate their business relationship with us entirely, we cannot assure you that we would be able to obtain orders from other customers to replace any such lost sales on comparable terms or at all. If any of these relationships were to be so altered or terminated and we were unable to obtain sufficient replacement orders on comparable terms, our business, results of operations and financial condition would be materially and adversely affected.

We do not have long-term purchase contracts from our customers.

We do not have long-term purchase contracts from our customers, and generally only enter into sales or supply contracts on an order-by-order basis with them. Accordingly, the volume of our customers' purchases and our product mix may vary significantly from period to period, and it is difficult for us to forecast future order quantities. We cannot assure you that any of our customers will continue to place orders with us in the future at the same level as in the current or prior periods, or at all. Furthermore, the actual volume of our customers' purchases may prove to be inconsistent with our expectations at the time we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

We may experience shortages or price increases of raw materials and components.

Our production depends on the ability to obtain adequate supplies of raw materials and components on acceptable terms. A shortage in any of these raw materials and components would likely increase their prices and would reduce our profit margins to the extent that we are unable to pass these higher raw materials and component prices to our customers. Raw materials have historically been the largest component of our cost of sales. For example, the principal raw material for our drill pipes and related products is steel-based components such as steel pipes. The price of steel has historically fluctuated significantly and may continue to fluctuate based on a variety of factors. We cannot assure you that the price of our principal raw materials will not rise from current levels and increase our cost of revenues and operating expenses. If we are unable to purchase any of our principal components at current prices or on terms acceptable to us or if we are not able to pass on all or part of any such price increases to our customers, our profit margins may decrease and our results of operations would be materially and adversely affected. For example, because we generally sell products to large-scale oil and gas companies in China at fixed prices subject only to limited adjustments based on parties' negotiations, the selling price of our products may not effectively reflect the fluctuation in raw material prices.

We depend on a limited number of suppliers.

For 2008, 2009 and 2010, purchases from our five largest suppliers, accounted for approximately 61.8%, 39.1% and 29.5%, respectively, of our total raw materials purchases. For the same periods, purchases from our largest supplier accounted for approximately 32.4%, 10.3% and 11.4% of our total purchases. If any of these suppliers fails to meet our quality standards or our quantity demands, our production, sales volume and results of operations may be adversely affected. Furthermore, we do not have any long-term arrangement with these suppliers that could provide us with a reliable supply of steel we require at pre-determined prices. If there is any supply shortage, we may not be able to deliver our products in a timely manner to our customers in the required quantities or at commercially acceptable prices, which in turn could result in order cancellations, decreased revenue and loss of market share.

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We are vulnerable to the delay or rescheduling of oil and gas pipeline projects.

We derive a significant portion of our revenue from sales of oil and gas line pipe coating materials and services, which have enjoyed greater demand in recent years due to the continued development and growth of the PRC economy and exploration and production activities by oil and gas companies, and favorable government energy policies, which in turn have resulted in the construction of more oil and gas pipelines. Planned and ongoing oil and gas pipeline projects can be delayed or rescheduled for a number of reasons including, among other factors, changes in the business strategy of pipeline operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. Should any of the major projects of our clients to which we plan to supply our pipeline coating materials and services be delayed or rescheduled, our business, financial condition and results of operations could be materially and adversely affected.

We face intense competition in our industry, and failure to compete effectively may adversely affect our business and prospects.

We face intense competition in the PRC and international markets in which we operate. See “Business—Competition.” Many of our competitors may have longer operating histories, stronger capital resources, better research and development facilities, larger customer bases, stronger customer relationships, greater brand or name recognition, greater financial, technical, marketing and public relations resources and a broader range of products and services than we do. Moreover, some of our competitors may also be better positioned to develop superior product features and technological innovations and able to better adapt to market trends than we are. For example, the United States International Trade Commission approved certain trade remedies measures relating to the import of drill pipes and drill collars originated in China in February 2011. As a result of these measures, a number of Chinese manufacturers are subject to anti-dumping duties ranging from 69% to 340% as well as anti-subsidy duties of 18.8%. These measures could result in the affected producers to focus on markets where we do business, resulting in more intense competition. Our ability to compete depends on our ability to offer a wide array of high quality conventional or premium products and services that are suitable for our customers’ needs at competitive prices. In addition, our competitiveness depends on our ability to achieve short lead-times, make timely deliveries and provide superior quality service and technical support. Competitive pressure may require us to reduce our prices or increase our costs and may adversely affect our profit margins and results of operations. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market positions.

Loss of or failure to renew the API Monogram, NS-1 certifications, or other licenses certifying that our products meet benchmark quality standards could materially and adversely affect our business.

We have been granted licenses to place the API Monogram on a significant majority of our drill pipe and related products. In addition, a number of our products and services, including hardbanding, drill pipes and coating services have received Fearnley Procter NS-1 certification. In the oil and gas equipment industry, these licenses and certifications signify that a product meets benchmark quality standards and they are critical to our sales efforts. In 2008, 2009 and 2010, revenue derived from sales of API drill pipes represented 91.9%, 85.3% and 83.6%, respectively, of our total drill pipe sales revenue. API licenses must be renewed every three years, and NS-1 certifications are generally valid for two years. During the examination process for the application and renewal of such licenses, API and Fearnley Procter send their technical staff to audit our manufacturing facilities and our production management. There can be no assurance that renewal for such licenses will continue to be successful. In the event that we do not obtain or renew any such licenses, our ability to market our products may be adversely affected, and our sales volume may be reduced. As a result, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to develop or adopt new production technologies, our business and prospects may be harmed.

The oil and gas industry is competitive and the production technology underlying the industry is rapidly evolving. As customers’ needs, related technologies and market trends are subject to change, we cannot assure you that we will be able to correctly predict the trends in a timely manner. If we fail to correctly predict changes in the production technology or develop or adopt competitive technology on a timely basis, whether developed

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in-house or through license, we may not be able to respond effectively to competitive industry conditions and changing customer demands. Responding to and adapting to technological developments and changes in the oil and gas industry, and the integration of new technologies or industry standards, may require substantial investment of resources, time and capital. Even if we implement such measures, there can be no assurance that we will succeed in adequately responding and adapting to such technological and industry developments. In the event that we are unable to respond successfully to technological and industry developments, our business, results of operations and competitiveness may be materially and adversely affected.

Our investment in the development of new technologies may not lead to commercial success.

We invest substantial resources into the research and development of new products or in the improvement of existing products. In 2008, 2009 and 2010, our research and development expenditure totaled RMB17.4 million, RMB22.3 million and RMB27.6 million, respectively. Some of this expenditure cannot translate into products that can feasibly, or cost effectively, be produced on a mass level. Even if new products are successfully developed, we cannot assure you that the products we develop would be commercially accepted. We cannot assure you that our research and development efforts will lead to substantial revenue, if at all. Our revenue may be adversely affected if the costs we spent in research and development do not bring along proportional financial benefits.

Our historical outstanding trade receivables and the turnover days of our trade receivables have been relatively high.

Historically, our outstanding trade receivables and the turnover days of our trade receivables have been relatively high. As of December 31, 2008, 2009 and 2010, our outstanding trade receivables less allowance for doubtful debts were RMB492.7 million, RMB610.5 million and RMB754.6 million, respectively, and the turnover days of our trade receivables were 85 days, 200 days and 187 days in 2008, 2009 and 2010, respectively. Our allowance for doubtful debts provided amounted to RMB11.4 million, RMB11.5 million and RMB11.0 million as of December 31, 2008, 2009 and 2010, respectively. See “Financial Information—Discussion of Our Statement of Financial Position Items—Trade and Other Receivables” for more information.

Delays in receiving payments from or non-payment by our customers may adversely affect our cash flow position and our ability to meet our working capital requirements. In addition, defaults in making payments to us on sales or supply contracts for which we have already incurred significant costs and expenditures can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available for other purchase orders. Any extended delay in payment by any major customer would have a material and adverse effect on the aging schedule and turnover days of our trade receivables. Our customers' ability to pay may be impaired by a number of factors including, but not limited to, unfavorable global market conditions for oil and gas industry, deteriorating liquidity position of our customers or delayed commencement of oil and gas exploratory or production activities due to various reasons beyond our control. The occurrence of any of the foregoing could affect our customers' ability to make timely payments. Inability to collect our trade receivables on a timely basis could materially and adversely affect our financial condition, liquidity and results of operations. We cannot assure you that our customers will make payment in full to us on a timely basis or that we will be able to efficiently manage the level of bad debt arising from receipt of payments in stages.

Any failure in accurately predicting product demand may result in high inventory balances and inventory turnover days, which could materially and adversely affect our business, financial condition and results of operations.

We depend upon our forecasts of demand for our products and services to make decisions regarding investments of our resources and production levels of our products. Because of the lead time necessary to manufacture our products, we typically commit to substantial purchases and commence manufacture process prior to obtaining orders for those products from our customers. Our customers may not order the products we have forecasted or will purchase fewer products than forecasted. In addition, unfavorable market or industry

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conditions can limit visibility into customer spending plans and compound the difficulty of forecasting inventory at appropriate levels. For example, we experienced significant decreases in sales in the last quarter of 2008 and in 2009 as a result of the global financial crisis and the associated decrease in international oil and gas prices. As a result, our inventory balance maintained at a relatively high level in 2009, and our turnover days of inventory increased from 103 days in 2008 to 194 days in 2009. We also recognized losses of RMB30.0 million in respect of write-down of inventories to their net realizable value in 2008, which primarily reflected the decrease in realizable value of inventories which we accumulated prior to the market downturn in August 2008 in anticipation of orders for premium drill pipe products, and reflected a combination of a significant decrease in market price of and lower demand for premium drill pipe products during the downturn. The write-down of inventories also reflected a cancellation of orders for approximately 1,783 tonnes of drill pipes by customers in North America region and Russia and Central Asia region which were affected by the financial crisis. We did not seek contractual or other legal remedies for such order cancellations as we had maintained sound business relationships with these customers and the cancellation was the result of unexpected market turmoil resulting from the global financial crisis beyond either party's control. See "Financial Information—Discussion of Our Statement of Financial Position Items—Inventories".

Our high inventory levels heighten the risk of inventory obsolescence, decline in values and write-offs, which could have a material adverse impact upon our financial condition and results of operations. In addition, if we are unable to sell products or if we are required to lower product prices in order to reduce inventories, our gross margin might be negatively affected. High inventory levels may also result in our commitment of substantial capital resources, which prevents us from using that capital for other purposes and requires us to utilize more capital than might otherwise be required. If we do not accurately predict product demand, our business and operating results could be materially adversely affected.

Power shortages or substantial increase in energy costs could have an adverse impact on our operations.

We consume substantial amounts of electricity in our production process. We have, from time to time, experienced power outages at our manufacturing facilities in Shanghai and Jiangsu, some of which resulted in temporary disruptions of our operations. If the PRC government imposes restrictions on the use of electricity due to power shortages, thereby disrupting our power supply, or if we are otherwise unable to obtain adequate supplies of electricity to meet our production requirements, our operations may be disrupted and our production and delivery schedules may be adversely affected. In addition, our ability to pass increased energy costs along to our customers may be limited by pressures from competition and customer resistance. We cannot assure you that we will be able to recover the substantial cost increases of energy by raising the prices of our products.

Our business strategy of growth through investments, acquisitions and strategic cooperation may not succeed.

As part of our growth strategy we may pursue acquisitions or enter into joint venture arrangements in our existing and new geographical markets that we believe would benefit us in terms of product, technology or distribution network. To enhance our growth, we may acquire companies, businesses or technologies. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions as well as to obtain necessary financing and any required governmental or third-party consents, approvals and permits in a timely manner. Even if we complete acquisitions, we have limited experience with significant acquisitions, and we may experience:

- difficulties in integrating any acquired companies, technologies, personnel or products into our existing business, particularly integrating different quality control, customer service, financial management, risk management, information system and other business functions;
- challenges in procuring and allocating resources to fuel our expansion, including sufficient raw materials, adequate manufacturing, production, warehousing and transportation infrastructure and increased distribution and marketing channels;
- difficulties in implementing management and internal control mechanisms that timely and adequately respond to our expanded scope of operations;

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- delays or failures in realizing the benefits of the acquired company or products, which could result from, for example, delays in customer certifications of products developed or manufacturing processes employed by acquired businesses;
- diversion of our management's time and attention from other business concerns;
- the risk that foreign countries may impose withholding taxes (or otherwise tax our foreign income or place restrictions on repatriation of profit) and the risk of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade;
- the burden of complying with foreign laws and regulations and changes in the political, regulatory, or economic conditions in a foreign country or region;
- volatility in currency exchange rates;
- cultural differences and other difficulties in managing international operations, including higher costs of integration than we anticipated; or
- difficulties in retaining key employees of the acquired business who are necessary to manage these acquired businesses.

If we invest in businesses that operate outside of China or that offer products that are different from our existing products, these risks may increase because of our limited experience in operating such businesses. An acquisition could also materially impair our operating results by causing us to incur debt or requiring us to amortize acquired intangible assets. We may also discover product liabilities and deficiencies in internal controls, data adequacy and integrity, product quality and regulatory compliance in acquired businesses which we did not uncover prior to such acquisition. As a consequence, we may become subject to penalties, lawsuits or other liabilities.

Any difficulties in the integration of acquired businesses, product or technologies or unexpected penalties, lawsuits or liabilities in connection with such businesses, product or technologies could have a material adverse effect on our business.

We face certain risks inherent in our overseas operations and risks associated with the international expansion of our business.

During the Track Record Period, revenue from our oilfield services segment was primarily derived from non-PRC markets, such as Russia and Central Asia region and South America region. In addition, we generated a significant portion of our drill pipes and related products revenue from sales to non-PRC markets, including Russia and Central Asia region, North America region and Middle East region. Revenue derived from non-PRC markets as a percentage of our total revenue amounted to 38.5%, 15.8% and 42.6% in 2008, 2009 and 2010, respectively. See "Business—Customers." In addition, as part of our strategy, we intend to expand our business into other regions in the world, including South America, North Africa and Central Asia. We face certain risks inherent in our overseas operations and risks associated with our efforts to expand and maintain our business in international markets, including:

- cultural differences and other difficulties in staffing and managing international operations;
- inherent difficulties and delays in contract enforcement and collection of receivables through the use of foreign legal systems;
- volatility in currency exchange rates;
- the risk that foreign countries may impose withholding taxes (or otherwise tax our foreign income or place restrictions on repatriation of profit);

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- the risk of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade;
- market entry barriers such as strong local competitors that may have a proximity advantage and local connections, which may prevent us from competing effectively in new markets;
- risks relating to any unfavorable relationship that may exist between China and the foreign country in which we operate;
- social unrest, acts of terrorism, war or other armed conflict, such as the recent social unrest in Egypt and Tunisia;
- changes in the political, regulatory, or economic conditions in a foreign country or region; and
- the burden of complying with foreign laws and regulations.

If any of the risks described above materializes, or if we are unable to manage these risks effectively, our ability to maintain or expand our international business would be impaired, which may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We cannot assure you that we will be able to effectively manage or obtain adequate financing for our planned expansion.

Further expansion of production capacity is a key aspect of our growth strategy. Our planned expansion requires us to identify suitable locations that are in close proximity to raw material sources or transportation networks. Even if we successfully identify suitable locations, we may be unable to expand our business if we cannot compete effectively in the market. In addition, we may not have the necessary management or financial resources to oversee the successful and timely construction of new production facilities or expansion of existing facilities. Our expansion plans could also be affected by construction delays, cost overruns, failures or delays in obtaining government approvals of necessary permits and our inability to secure the necessary production equipment. Furthermore, to effectively manage our planned expansion, we must improve our operational and financial systems and procedures and system of internal control. We cannot assure you that we will be able to effectively manage our planned expansion or achieve our expansion plans in production capacity at all. If we are unable to do so, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures, any of which could materially and adversely affect our business, results of operations and financial condition.

In addition, we expect that over the next several years, a substantial portion of our cash flow will be used to finance the expansion of our production capacities and other aspects of our business. We may need to incur additional financing in order to fund our capital expenditures. We cannot assure you that we will be successful in obtaining such financing at a reasonable cost or at all. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations or liquidity position.

Protectionist measures such as initiation of anti-dumping and anti-subsidy proceedings and imposition of anti-dumping and/or countervailing duties by governments in our overseas markets could materially and adversely affect our export sales.

International sales as a percentage of our total revenue amounted to 38.5%, 15.8% and 42.6% in 2008, 2009 and 2010, respectively. Anti-dumping and anti-subsidy proceedings have been initiated by local producers in countries such as the United States and Canada in relation to certain steel products, such as drill pipes. These proceedings have resulted in the imposition of significant penalties, anti-dumping or countervailing duties, or a combination of the foregoing. These and other similar measures could trigger trade disputes between major countries importing and exporting steel product. While neither anti-dumping nor anti-subsidy proceedings have been initiated against us in countries to which we currently or expect to sell our products and we historically have

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not been materially affected by any such proceedings, we cannot guarantee that we will not be significantly affected by such proceedings in the future. Any such proceeding would divert significant time and resources from us if unsuccessful and impede access to export markets for our products and limit our growth opportunities if successful.

We may be unable to prevent possible resale or transfer of our products to countries, governments, entities, or persons targeted by United States economic sanctions.

OFAC and the Bureau of Industry and Security, or BIS, of the U.S. Department of Commerce administer certain laws and regulations, or U.S. Economic Sanctions Laws, that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of U.S. Economic Sanctions Laws, or Sanctions Targets. U.S. persons are also generally prohibited from facilitating such activities or transactions. We will not use any proceeds from the Global Offering to fund any activities or business with any Sanctions Targets with respect to which U.S. persons or, as appropriate, foreign entities owned or controlled by U.S. persons, are prohibited by U.S. Economic Sanctions Laws from conducting. In addition, we are implementing a number of measures designed to ensure ongoing compliance with U.S. Economic Sanctions Laws. However, we cannot assure you that we will be able to prevent all sales of our products to Sanctions Targets in the future. If our products are sold into Sanctions Targets in the future, our reputation could be adversely affected, some of our U.S. investors may be required to sell their Shares in our Company under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to sell such interests, and some U.S. institutional investors may forgo the purchase of our Shares, all of which could materially and adversely affect the value of our Shares and your investment in us.

Our products may contain undetected flaws or defects. Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products.

Our products may contain latent defects or flaws. Our products may contain flaws that are not detected prior to delivery to our customers. Some flaws in our products may only be discovered after a product has been installed and used by customers. Any flaws or defects discovered in our products could result in delay in payment collection, increase in service or warranty cost, loss of revenue or loss of customers, any of which could adversely affect our business, operating results and financial condition. If our products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, or result in our customer's financial losses or personal injuries, we may be subject to product liability claims and other claims for compensation. As a result, we may be subject to product liability claims and litigation and may incur significant legal costs regardless of the outcome of any claim of alleged defect. Products failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales or supply of these or other products. As a result, if we face any product liability claims or litigations, our business, financial condition and results of operations may be materially and adversely affected.

The oil and gas equipment manufacturing industry is subject to regulation, and we may not successfully obtain and maintain the necessary regulatory permits, approvals or clearance for the production and sale of our products in certain markets.

The oil and gas equipment manufacturing industry is subject to extensive regulation by the government, industry organizations and international standardization bodies. These regulations set requirements and standards for the manufacturing, functionality and safety performance of our products. Our ongoing compliance with such regulations and standards can be expensive, which can result in increased manufacturing, development and marketing costs. In addition, extensive government regulation and the related delays in seeking the appropriate approvals or permits can significantly delay the introduction of our new products, which could materially and adversely affect our market competitiveness. Even if we do obtain approval or permits from the appropriate authorities, it may be granted on a limited basis or subject to modification of our products, which could increase operation costs.

In addition, as part of our growth strategy, we plan to further expand our production and sales internationally, including to South America, North Africa and Central Asia, all of which have highly regulated

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markets. We cannot guarantee that we will receive the necessary regulatory approvals to market our products in the countries and markets where we may seek approval in the future. Moreover, even if we obtain the requisite approvals for our current products, we cannot guarantee that we will remain compliant with the appropriate country regulations in the future. Any failure to do so may result in a variety of actions against us, including penalties, injunctions, suspension of production, the loss of regulatory approvals, product recalls and termination of distribution.

We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive.

As part of our business operation, we are required to comply with various and extensive environmental as well as health and safety laws and regulations promulgated by the PRC and governments of other overseas jurisdictions in which we operate. If we fail to comply with these laws and regulations, we could be exposed to penalties, fines, suspension or revocation of our licenses or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, there can be no assurance that the PRC governments or the governments of other overseas jurisdictions in which we have operations will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers.

Failure to maintain a safety performance standard that is acceptable to our customers could result in the loss of future business.

A number of our customers set safety performance standards for their suppliers that are more stringent than the minimum required by applicable laws. A number of our customers require us to maintain safety performance records for our manufacturing facilities, products and service offerings. Some of our customers have set safety performance criteria that potential suppliers must meet in order to become and remain one of their suppliers. If we fail to meet a customer's safety performance requirements, we may be required to incur additional expenses to implement corrective measures, or even be removed from that customer's supplier list and precluded from providing products or services to that customer.

Our business operations and manufacturing facilities may be adversely affected by unexpected interruptions in production, operating hazards and natural disasters.

Our business requires substantial investments in complex production facilities and the uninterrupted use of specialized manufacturing equipment. Substantial damage to our manufacturing facilities from natural or other causes, such as earthquakes, floods, fires and typhoons, or resulting consequences and disruptions, technical or mechanical difficulties or sourcing difficulties could be costly and time-consuming to repair and may disrupt our manufacturing. In such an event, we would be forced to suspend our manufacturing, rely on third-party manufacturers or seek alternative facilities. Even if we are able to identify such alternative facilities, we may incur additional costs and experience a disruption in the supply of our products until those facilities are available. Any disruption or delay in our manufacturing capacity could have an adverse impact on our ability to produce sufficient inventory of our products or may require us to incur additional expenses in order to produce sufficient inventory, and could impair our ability to meet the demand of customers and cause such parties to cancel orders, any of which could negatively affect our reputation and results of operations.

Our production process involves the operation of machinery, which involves inherent risks that cannot be completely eliminated through preventive measures. We cannot assure you that accidents such as major equipment failures, explosions and fires which may result in property damage, severe personal injuries or even fatalities will not occur in one of our manufacturing facilities or during the course of our business operations. The occurrence of any of the foregoing events may have a material and adverse effect on our business, financial condition and results of operations.

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Our business operations involve risks and occupational hazards.

Our business operations involve risks and occupational hazards that are inherent to the industry and which may not be completely eliminated through the implementation of preventive measures. These risks could result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, legal liability, damage to our business reputation and corporate image, and fatalities. Our business, financial condition and results of operations may be materially and adversely affected if we incur any loss which is not covered by our insurance policies or if the amount of such loss exceeds the aggregate amount of our insurance coverage.

We face certain risks relating to the real properties that we own, use or lease.

As of the date of this prospectus, we are in the process of obtaining the land use right for a parcel of land with a gross land area of 29,752 square meters in Sichuan Province. We won the bid of land use right with respect to such land in February 2011 and have duly paid the premium required to obtain such land use right. We expect to obtain the land use right of such land in June 2011. We commenced construction of certain production facility and office spaces on such land prior to local authority's issuance of approval for commencement of construction. In addition, we leased production facilities for our drill pipe manufacturing and coating services operations in Shanxi Province and Jiangsu Province. However, the lessors of these properties have not obtained property title certificates to such leased properties. See "Business—Production Facilities and Real Properties—Real Properties."

We cannot assure you that we will not be subject to any governmental fines or penalties as a result of our commencement of construction prior to local authority's issuance of the approval. In addition, our leasehold interest on properties in Shanxi Province and Jiangsu Province could be challenged by a third party alleging ownership of such property. In the event that our use of properties is successfully challenged, we may be forced to relocate the affected operations. There can be no assurance that we could find suitable replacement site on terms acceptable to us on a timely basis, or at all, or if we would not be subject to any material liability resulting from third parties' challenges for our use of such properties. To the extent that any material fines or penalties are imposed by the governmental authority with respect to our use of such properties, or that any other loss sustained by us as a result of our use of properties is not fully indemnified by the lessors, our business, financial condition and results of operations could be materially and adversely affected.

If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our cost of sales could increase.

We are highly dependent upon the transportation systems we use to deliver our products, including train, truck and ocean shipping. The transportation network is potentially exposed to disruption from a variety of causes, including labor disputes or port strikes, acts of war or terrorism and natural disasters. If our delivery times increase unexpectedly for these or any other reasons, our ability to deliver products on time could be materially and adversely affected and result in delayed or lost revenue.

Severe weather conditions may affect our operations.

Our oilfield services business may be materially affected by severe weather conditions in areas where we operate. This may entail the evacuation of personnel and stoppage of services. In addition, if particularly severe weather affects platforms or structures, this may result in a suspension of activities until the platforms or structures have been repaired. Any of these events could adversely affect our financial condition, results of operations and cash flows.

We may not maintain sufficient insurance coverage for the risks associated with our business operations.

Risks associated with our businesses and operations include but not limited to damage to production facilities, environmental pollution, transportation damages and delays, business interruption due to power shortage, industrial damages, product liabilities, losses of key personnel and risks posed by natural disasters, any or all of which may result in significant losses to us. Currently, we have maintained insurance coverage we

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consider necessary and sufficient for our operations and customary for the industry in which we operate. See “Business—Insurance”. We cannot assure you that our insurance coverage is sufficient to cover any losses to be sustained by us, or that we can successfully claim our losses under our existing insurance policy on a timely basis or at all. If we incur any loss which is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our financial condition and results of operations could be materially and adversely affected.

Our interests may conflict with those of Mr. Zhang, who may take actions that are not in, or may conflict with, our or our public shareholders’ best interests.

Immediately after the Global Offering, Mr. Zhang will remain as our Controlling Shareholder with substantial control over our issued share capital. Accordingly, subject to our Memorandum and Articles of Association and the Companies Law, Mr. Zhang, by virtue of his controlling ownership of our share capital as well as his position on our board, will be able to exercise significant control, or exert significant influence over, our business or other matters of significance to us and other shareholders by voting at the general meetings of shareholders or at board meetings, including any shareholder approvals for the election of our Directors, the selection of our senior management, the amount of dividend payments, increases or decreases in our share capital, new securities issuance, mergers and acquisitions and any amendments to our bylaws. Although Mr. Zhang is our Director, the voting power and other rights of Mr. Zhang as our Controlling Shareholder will not be affected by his capacity as a Director. Mr. Zhang is free to exercise his voting power according to his interests, which may differ from the interests of other shareholders.

Any material disputes between us and our joint venture partners may adversely affect the results of operations and financial condition of the relevant joint venture and, if unresolved, could potentially lead to a termination of that joint venture.

If there is a material dispute between us and our joint venture partners in connection with the performance of a party’s obligations or the scope of a party’s responsibilities under the relevant joint venture agreements, the parties may not be able to resolve their disputes through negotiation. In the event such a material dispute cannot be resolved, the business and operations of the relevant joint venture may be adversely affected, and the joint venture agreement may be terminated by mutual consent of the parties or as a result of a material breach by one party. In addition, our joint venture agreements with relevant joint venture partners do not provide for any dispute resolution mechanism in the event of a deadlock in the board meeting of the relevant joint venture. Any such deadlock may cause the board of directors of the relevant joint venture to fail to make, or delay in making, important decisions, which may adversely affect the financial condition and results of operation of the relevant joint venture. Furthermore, the operational, financial or other condition of our joint venture partners may deteriorate, which may adversely affect their ability to continue to perform their obligations under the relevant joint venture agreements or other contracts, which in turn could have any adverse impact on the business of the relevant joint venture. In the event that any of the above events occurs, our financial condition and results of operations may be adversely affected.

If we are unable to attract and retain members of our senior management team and other skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted.

Our success depends on the continued service of our key executive officers. We do not carry key person insurance on any of our personnel. We cannot assure you that we will appoint or integrate adequate replacement personnel into our operations in a timely manner, the failure of which may in turn disrupt our operations and the growth of our business.

Our success also depends upon our ability to recruit and retain technical personnel with the ability to develop, manufacture, sell and enhance our products. We have invested significant resources in training our technical personnel, and we expect to increase our outlays to expand our business. Currently, the demand for skilled workers in China is high, and supply is limited. As a result, there is significant upward pressure on labor wages in China. Significant increases in wages paid by competing employers could result in a reduction of our

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skilled labor force, and increases in the wage rates that we must pay. If any such events were to occur, our cost structure may increase and our growth potential may be impaired which in turn could have a material adverse effect on our business, financial condition and results of operations.

Failure to protect our intellectual property rights may materially and adversely affect our competitive position and operations and we may be exposed to infringement or misappropriation claims by third parties.

Our success is in part attributable to the intellectual properties that we have developed or acquired. See “Business—Intellectual Property”. There can be no assurance that the steps we have taken to protect our intellectual property rights are adequate to prevent or deter infringement or other misappropriation of our intellectual property. Any significant infringement of our proprietary technologies and processes could weaken our competitive position and have an adverse effect on our operations. To protect our intellectual property rights, we may have to commence legal proceedings against any misappropriation or infringement. However, there can be no assurance that we will prevail in such proceedings. We may be subject to litigation or other proceedings involving the violations of intellectual property rights of third parties. The defense of such litigation or other proceedings can be both costly and time-consuming. An adverse determination in any such litigation or proceedings to which we may become a party could materially and adversely affect our business, financial condition or results of operations.

Our historical dividends may not be indicative of our future dividends.

We declared dividends in the amount of RMB108.3 million, RMB9.0 million and RMB10.0 million in 2008, 2009 and 2010, respectively. There can be no assurance that in the future we will pay dividends at a similar level to the past or at all, and potential investors should be aware that the amount of dividends we paid in the past should not be used as a reference or basis upon which future dividends are determined. Whether dividends will be distributed and the amount to be distributed will depend on factors such as our profitability, financial condition, business development requirements, future prospects and cash requirements. Any declaration and payment, as well as the amount of dividends, will be subject to our constitutional documents and the Companies Law, including the approval of our shareholders or our Directors. There can be no assurance that we will make any dividend payments on our ordinary shares in the future.

An occurrence of a widespread health epidemics and other outbreaks could have a material adverse effect on our results of operations.

Our business could be adversely affected by the effects of Influenza A virus subtype H1N1 (or A(H1N1)), Severe Acute Respiratory Syndrome (SARS), avian influenza or other epidemic or outbreak on the economic and business climate. Any recurrence of A(H1N1), SARS, avian influenza or other adverse public health developments in China or else in the world could have a material adverse effect on our business operations. These could include our ability to travel or ship our products outside of China, as well as temporary closure of our operating facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. Our business operations could be disrupted if one of our employees is suspected of having SARS, avian influenza or A(H1N1), since it could require us to quarantine some or all of our employees and/or disinfect our facilities. In addition, our results of operations could be adversely affected to the extent that SARS, avian influenza, A(H1N1) or other outbreak harms the global economy in general.

RISKS RELATING TO THE PRC

Adverse changes in China’s economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China’s overall economic growth, which in turn, could materially and adversely affect our business, financial condition and results of operations.

The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of governmental involvement; (iii) level of development; (iv) growth rate; (v) control of

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foreign exchange and capital flows; and (vi) allocation of resources. The Chinese economy is in transition from a planned economy to a market economy. For the past three decades, the PRC government has implemented economic reform measures, emphasizing the utilization of market forces in the development of the Chinese economy. The PRC economy has grown significantly in recent years. However, we cannot assure you that such growth will continue. In response to the global economic slow-down and market volatility, the PRC government has lowered interest rates and implemented large fiscal stimulus packages to boost the domestic economy, which include RMB 4.0 trillion investments in, among other things, airports, highways, railways, power grids and other infrastructure developments, the effects of which cannot yet be fully determined. Any adverse change in China's economic, political and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which in turn could materially and adversely affect our business, financial condition and results of operations.

PRC regulation of loans and direct investments by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from this offering to make loans or additional capital contributions to our PRC operating subsidiaries.

In utilizing the proceeds we receive from this offering in the manner described in "Use of Proceeds," as an offshore holding company with PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries.

Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans to our PRC subsidiary Hilong Group, which is a foreign-invested enterprise, to finance its activities cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange in China, or SAFE, or its local counterpart. Loans by us to domestic PRC enterprises must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterpart.

Any capital contributions to our PRC subsidiaries must be approved by the Ministry of Commerce in China or its local counterpart. On August 29, 2008, SAFE promulgated "Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (Hui Zong Fa [2008] No. 142) (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》滙綜發[2008]142號), or Circular 142 which provides Renminbi capital 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 shall not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its oversight over 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 altered without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Rules.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our direct or indirect subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

Fluctuations in exchange rate may have a material adverse effect on your investment.

We manufacture our products primarily in the PRC and incur costs mainly in Renminbi. Renminbi is the functional currency and presentation currency for our financial statements. However, a significant portion of our revenue is derived from overseas markets, which are denominated in foreign currencies, including the U.S. dollar and the Euro. We also have accounts receivable and payable denominated in foreign currencies. As a result, we are exposed to foreign exchange fluctuations between the Renminbi and these other currencies as well as among the non-Renminbi currencies. Our revenue, profit and profit margin as well as our working capital and liquidity

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position could be materially and adversely affected should any of such foreign currencies depreciates significantly against Renminbi. See “Financial Information—Quantitative and Qualitative Disclosure About Market Risk—Foreign Exchange Risk.”

The conversion of Renminbi into foreign currencies, including the U.S. dollar, has been based on rates set by the People’s Bank of China. 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 this policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 25.4% appreciation of the Renminbi against the U.S. dollar from July 21, 2005 to December 31, 2010. 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 these currencies. Further appreciation of the Renminbi may cause our exported products to be relatively more expensive than those of our competitors, which could have an adverse impact on our overseas sales and may cause imported products, which compete with our products, to be relatively less expensive for Chinese customers. This could have a material adverse effect on our business, financial condition, and results of operations. Conversely, any depreciation of the Renminbi would adversely affect the value of any dividends payable on the Shares by us in foreign currency terms.

There are only limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations. We currently do not enter into such currency hedging transactions. We may consider entering into currency hedging transactions, however, the effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies because the regulations would limit our ability to hedge our exposure to foreign currency exchange losses.

Failure to comply with the SAFE regulations relating to registration of interests by our PRC resident beneficial owners may adversely affect our business operations.

On October 21, 2005, SAFE issued the “State Administration of Foreign Exchange’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round-trip Investment via Special Purpose Offshore Companies” (Hui Fa [2005] No. 75) (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(匯發[2005]75號)), or Notice No.75, a public notice which became effective on November 1, 2005. The Notice No.75 requires PRC residents to register with the local SAFE branch before directly establishing or indirectly controlling any company, referred to in the notice as a “special purpose offshore company”, outside of the PRC for the purpose of capital financing with assets or equity interest in an onshore enterprise in the PRC, and to go through the modification registration procedures after completing an investment in or acquisition of any operating subsidiaries in the PRC via the special purpose offshore company, which we refer to herein as a “round-trip investment”. In addition, any change of shareholding or any other material capital alternation in such special purpose offshore company not involving a round-trip investment, such as a change in share capital or merger and acquisition, must be filed or registered within 30 days from the date of change. The relevant SAFE’s regulations apply retrospectively to registration of direct or indirect investments made by PRC residents in special purpose offshore companies before the Notice No.75 came into effect.

In the event that a PRC resident with a direct or indirect stake in a special purpose offshore company fails to make the required SAFE registration, the PRC subsidiaries of such special purpose offshore company may be prohibited from distributing their profits to their offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries, and the offshore parent’s ability to contribute additional capital or provide loans, whether using the proceeds from the Offering or otherwise, would be impaired. In addition, failure to comply with SAFE registration requirements as described above may also result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

These regulations apply to the beneficial owners of our Company who are PRC residents. We have notified our beneficial owners whom we know are PRC residents to register with the local SAFE branch and update their

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registrations from time to time as required under the SAFE regulations described above. We are aware that our beneficial owners whom we know as PRC residents have registered with the relevant local SAFE branch. We, however, cannot provide any assurances that any or all of our beneficial owners who are PRC residents will continue to comply with relevant SAFE regulations. Any failure or inability of our PRC resident beneficial owners to comply with the registration procedures may subject such PRC resident beneficial owners to certain fines and legal sanctions, may restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends or obtain foreign exchange-dominated loans to our company.

The payment of dividends by our operating subsidiaries in China is subject to restrictions under PRC law.

We are a holding company established in the Cayman Islands and we operate our core business through our subsidiaries in China. PRC laws require that dividends be paid only out of net profit, calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS and U.S. GAAP. PRC laws require foreign invested enterprises, including all of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Since the availability of funds to pay dividends to our shareholders and to service our indebtedness depends upon dividends received from these subsidiaries, any restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our shareholders and to service our indebtedness.

Any change in the preferential tax treatment we currently enjoy in the PRC may have an adverse impact on our results of operations.

On March 16, 2007, the National People's Congress passed a new Enterprise Income Tax Law. The Enterprise Income Tax Law, or EIT Law, which became effective on January 1, 2008 replaced the previous two separate tax legal regimes for foreign-invested enterprises and Chinese domestic companies and imposes a single uniform income tax rate of 25% for all enterprises, including foreign-invested enterprises, unless they qualify for any exemptions or reductions. Although the EIT Law revokes many of the previous tax exemption, reduction and preferential treatments which were applicable to foreign-invested enterprises, it contemplates various transition periods and measures for previous preferential tax policies. Enterprises which were established before the promulgation of the EIT Law and were previously entitled to a lower income tax rate will be entitled to a grace period of 5 years, and enterprises which were entitled to the fixed-term preferential tax exemption or reduction will continue to enjoy such preferential treatment until the expiration of the specified terms, except that the relevant exemption or reduction shall start from January 2008 if the first profitable year for the relevant enterprise is later than January 1, 2008. We expect that our tax payment will increase in 2010 and will further increase following the expiry of the above preferential tax treatment in 2013.

Moreover, the EIT Law provides a withholding tax rate of 20% which will be applicable to dividends payable by foreign-invested enterprise to its foreign investors that are "non-PRC resident enterprise" without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign investors in the PRC unless the jurisdiction of such foreign investors has a tax treaty with China that provides a different withholding arrangement. The Implementation Rules of the Enterprise Income Tax Law, which was promulgated on December 6, 2007, subsequently reduced this withholding income tax rate from 20% to 10%. The State Administration of Taxation and Minister of Finance jointly issued the Notice on Several EIT Preferential Treatments on February 22, 2008, which further clarifies that dividends distributed to foreign investors out of the profits of a foreign-invested company generated before January 1, 2008 are still exempt from withholding tax even if they are paid after January 1, 2008.

Under the EIT Law, if any enterprise incorporated outside the PRC has its "actual management organization" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on their global income. The Implementation Rules of the Enterprise Income Tax Law defined the "actual management organization" as an organization actually managing and controlling an enterprise's production, operation, personnel, finance and assets. If the PRC tax authorities determine that our overseas holding companies are "PRC resident enterprises" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. Firstly, we may be subject to enterprise

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income tax at a rate of 25% on our global taxable income as well as PRC enterprise income tax reporting obligations. Secondly, although under the EIT Law and its Implementing Rules, dividends income between qualified PRC resident enterprises is tax-exempted, it is not clear how the qualified PRC resident enterprise is defined under the EIT Law. Finally, if dividends we pay to our non-PRC shareholders and gains derived by our non-PRC shareholders from transferring our shares are treated by the PRC taxation authorities as income derived from sources within the PRC, such dividends and gains may be subject to a 10% withholding tax unless the jurisdiction of such non-PRC shareholders has a tax treaty with China that provides a different withholding arrangement, provided that the non-PRC shareholders are “non PRC resident enterprises” without any establishment or place within China or that such dividends or gains have no connection with the establishment or place of the non-PRC shareholders in the PRC.

We face uncertainty with respect to transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》國稅函[2009]698號), or SAT Circular 698, issued by the State Administration of Taxation on December 10, 2009 with retroactive effect from January 1, 2008, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there is no any formal implementation guidance with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax, or how and to what extent the PRC tax authority may adjust the taxable income of related parties transfer. As a result, we may become at risk of being taxed under SAT Circular 698 due to any transfer of equity interest in our group companies. We may be required to incur additional tax-related expenses or otherwise allocate significant resources to comply with SAT Circular 698, or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little value as precedents in subsequent legal proceedings. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to us. We cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorizations may have a material adverse affect on our business, financial condition and results of operations.

RISK FACTORS

It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our Directors.

Most of our operating subsidiaries are incorporated in the PRC, and a substantial portion of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other western countries. An Arrangement between China and Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was executed on July 14, 2006. However, there are many restrictions on such arrangement. As a result, it may not be possible for investors to effect service of process upon our subsidiaries or our Directors pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible.

The implementation of the PRC Labor Contract Law and the Implementation Regulation for the PRC Labor Contract Law may increase our operating expenses and may adversely affect our business and results of operations.

On June 29, 2007, the PRC National People's Congress enacted the PRC Labor Contract Law, or the Labor Contract Law, which became effective on January 1, 2008. The Implementation Regulation for the PRC Labor Contract Law, or the Implementation Regulation, was promulgated by the State Council and took effect on September 18, 2008. The Labor Contract Law formalizes, among others, worker's rights concerning overtime hours, pensions and layoffs, the execution, performance, modification and termination of the labor contracts, the clauses of the labor contract and the role of trade unions herein. In particular, it provides for specific standard and procedures for entering into non-fixed-term labor contracts as some of our employees do. Either the employer or the employee is entitled to terminate the labor contract in circumstances as prescribed in the Labor Contract Law or if certain precondition is fulfilled, and in certain cases, the employer is required to pay a statutory severance upon the termination of the labor contract pursuant to the standards provided by the Labor Contract Law.

As the Labor Contract Law and its Implementation Regulation have been enforced for only a very short period by now, substantial uncertainty remains as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law and the Implementation Regulation may increase our operating expenses, in particular our costs of human resources and our administrative expenses. In the event that we decide to significantly modify our employment or labor policy or practice, or reduce the number of our employees or otherwise, the Labor Contract Law may also limit our ability to effectuate the modifications or changes in the manner that we believe to be most cost-efficient or otherwise desirable, which could materially and adversely affect our business and results of operations.

In addition, Social Insurance Law of the People's Republic of China, or the Social Insurance Law, was promulgated on October 28, 2010 and will take effect on July 1, 2011. The implementation of the Social Insurance Law could increase our staff costs and expenses associated with social insurance payable in the PRC. As the Social Insurance Law is a newly enacted law and has not come into effect as of the date of the prospectus, substantial uncertainty remains as to its implementation and interpretation by governmental authorities in the PRC and its potential impact upon our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.

Financial markets around the world have been experiencing heightened volatility and turmoil since 2008. Upon listing, the price and trading volume of our Shares will likely be subject to similar market fluctuations which may be unrelated to our operating performance or prospects. Factors that may significantly impact the volatility of our stock price include:

- developments in our business or in the financial sector generally, including the effect of direct governmental action in the financial markets;

RISK FACTORS

- the operating and securities price performance of companies that investors consider to be comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of our Shares may decline significantly, and you may lose a significant value on your investments.

Issuance of Shares pursuant to the Pre-IPO Share Option Scheme will result in dilution to your shareholding in our Company and dilution of the earnings per Share.

Issuance of Shares for the purpose of satisfying any award made under the Pre-IPO Share Option Scheme and/or pursuant to the exercise of the options to be granted under the Pre-IPO Share Option Scheme will cause dilution to your shareholding in our Company and dilution to the earnings per Share because of the increase in the number of Shares in issue after the issuance. As at the Latest Practicable Date, options to subscribe for an aggregate of 46,322,000 Shares had been granted to 225 grantees under the Pre-IPO Share Option Scheme. In addition, we expect to incur additional costs and expenses relating to our share option scheme which could negatively affect our financial condition and results of operations. See “Statutory and General Information—Pre-IPO Share Option Scheme” for more information of our Pre-IPO Share Option Scheme.

If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected.

There has been no prior public market for our Shares. If an active trading market of our Shares does not develop, the price of our Shares may suffer and may decline below the Offer Price. The initial Offer Price range to the public for our Shares was the result of negotiations among us and the Joint Bookrunners on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active market for our Shares will develop following the Global Offering or in the future. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected. There can be no assurance as to the ability of the Shareholders to sell the Shares they own, or as to the prices at which Shareholders would be able to sell the Shares. Consequently, Shareholders may not be able to sell the Shares at prices equal to or greater than the price they paid for in the Global Offering.

The liquidity and market price of our Shares following the Global Offering may be volatile, which may result in substantial losses for investors purchasing our Shares in the Global Offering.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenues, earnings, or cash flows, and announcements of new investments, strategic alliances or acquisitions, or fluctuations in market prices for raw materials, could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade. There can be no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced substantial price volatility in the past. It is possible that our Shares will be subject to substantial changes in price that may not be directly related to our financial or business performance.

Our Share price may be affected if additional Shares are sold by our substantial shareholder or are issued by us.

We will have a number of substantial shareholders immediately after the Global Offering. Further details are set out in the section headed “Substantial Shareholders” and in Appendix VI “Statutory and General Information”

RISK FACTORS

to this prospectus. Furthermore, our Directors have been granted a general unconditional mandate to issue Shares with an aggregate nominal value of not more than 20% of the aggregate nominal value of the ordinary share capital immediately following completion of the Global Offering. Further details are set out in the section headed “Share Capital—General Mandate to Issue Shares”. The Company and certain of our shareholders and Directors have agreed with the Underwriters not to, subject to certain exceptions, dispose of or hedge any of our securities which are substantially similar to the Shares or which are convertible or exchangeable into securities which are substantially similar to the Shares for certain agreed-to periods except with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters). Further details are set out in the section headed “Underwriting”. We cannot assure you that the abovementioned shareholders will not dispose of the Shares held by it or that we will not issue Shares pursuant to the general mandate, upon the expiration of the restrictive period. We cannot predict the effect, if any, that any future sales of Shares by the substantial shareholder, or the availability of Shares for sale by the abovementioned shareholders, the issuance of Shares by the Company, or the availability of the general mandate to our Directors, may have on the market price of our Shares. Sales or issuance of substantial amounts of Shares by the abovementioned shareholders or us, or the market perception that such sales or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

The Laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong.

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that the level of protection afforded to our minority shareholders may differ from what may be afforded to them under the laws of Hong Kong. A summary of Cayman Islands law on “Protection of Minorities” is set out in Appendix V “Summary of the Constitution of the Company and Cayman Company Law” to this prospectus.

Purchase of Offer Shares will incur an immediate and substantial dilution as a result of the Global Offering.

The Offer Price of the Offer Shares is substantially higher than the net tangible book value per Share. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate and substantial dilution in net tangible book value per Share as a result of the Global Offering.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding our Global Offering.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding Global Offering, or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in our Global Offering.

Prospective investors in our Global Offering are reminded that, in making their decisions as to whether to purchase our shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in the oil and gas equipment industry in the PRC;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions in the PRC; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as “believe”, “seek”, “intend”, “anticipate”, “project”, “forecast”, “plan”, “potential”, “will”, “may”, “should”, “going forward”, “expect” and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. The risks and uncertainties in this regard include those identified in the “Risk Factors” section in this prospectus. Actual results may differ materially from information contained in forward-looking statements as a result of numerous factors, including, without limitation, those described in the “Risk Factors” section and the following:

- changes in domestic and international oil and natural gas prices, and domestic and international exploration, drilling and production activities;
- our relationship with our end customers;
- supply and demand changes in raw materials and components;
- schedules for oil and gas pipeline projects;
- our ability to develop and adopt new products and new production technologies;
- our plans and objectives for future operations and expansion;
- our production capabilities;
- environmental as well as health and safety laws and regulations;
- our liquidity and financial condition;

FORWARD-LOOKING STATEMENTS

- competition;
- the effects of changes in currency exchange rates;
- changes in political, economic, legal and social conditions; and
- economic growth, inflation, foreign exchanges and the availability of credit.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

The following material waivers from the basic conditions in relation to qualifications for Listing have been applied for and granted from the Stock Exchange and SFC.

WAIVER FROM RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. We have applied for a waiver from strict compliance with Rule 8.12 of the Listing Rules on the basis that, as our core business operations are based, managed and conducted in the PRC, our management is best able to attend to its functions by being based in the PRC. The Stock Exchange has granted a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorized representatives, who will act as our principal channel of communication with the Stock Exchange and ensure that we comply with the Listing Rules at all times. The two authorized representatives are Mr. Zhang Jun, an executive Director and Chief Executive Officer of the Company and Ms. Zhang Shuman, an executive Director of the Company. Both Mr. Zhang and Ms. Zhang hold valid travel documents to visit Hong Kong and will be readily available. As such, each of the authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the authorized representatives has been authorized to communicate on our behalf with the Stock Exchange;
- (b) in compliance with Rule 3A.19 of the Listing Rules, we shall retain a qualified institution to act as compliance adviser for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules to provide us with advices on the obligation in compliance with the Listing Rules, all other applicable laws, rules, codes, and guidelines. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after listing and, where our authorized representatives are unavailable, act as an additional channel of communication between the Stock Exchange and us at least for a period commencing from the Listing Date and ending on the date that we publish our first full financial year results pursuant to Rule 3A.19 of the Listing Rules;
- (c) both the authorized representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (a) each Director will provide his or her mobile phone number, office phone number, residential phone number, fax number and email address to the authorized representatives and the Stock Exchange; (b) each executive Director will provide valid phone numbers or means of communication to the authorized representatives when he or she is traveling; and (c) each executive Director will provide his or her mobile phone number, residential phone number, office phone number, fax number and email address to the Stock Exchange; and
- (d) all Directors who are not ordinary residents in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

WAIVER FROM RULE 8.17 OF THE LISTING RULES

Pursuant to Rule 8.17 of the Listing Rules, the secretary of our Company must be a person who is ordinarily resident in Hong Kong, and who has the requisite knowledge and experience to discharge the functions of a company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or barrister or a professional accountant, or (ii) an individual who, by virtue of his academic or professional

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

qualifications or relevant experience, is in the opinion of the Stock Exchange capable of discharging those functions.

We have appointed Ms. Zhang Shuman and Ms. Cheng Pik Yuk as joint company secretaries. Ms. Cheng Pik Yuk is a Fellow Member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and fully complies with the requirements set out under Rule 8.17 of the Listing Rules. Ms. Zhang Shuman is experienced in management and has a thorough understanding in the operations of our Group; however, she does not possess a qualification and is ordinarily resident in the PRC and may not be able to solely fulfill the requirements as stipulated in Rule 8.17 of the Listing Rules. As such, our Company has appointed Ms. Cheng Pik Yuk, who is ordinarily resident in Hong Kong, to act as joint company secretary and to provide assistance to Ms. Zhang so as to enable her to acquire the relevant experience (as required under Rule 8.17(3) of the Listing Rules) and to duly discharge the functions of a company secretary.

We propose to engage Ms. Cheng Pik Yuk as joint company secretary for a minimum period of three years commencing from the Listing Date. During her engagement period, Ms. Cheng Pik Yuk will ensure that at all times she will be available to provide the assistance as described above. Ms. Cheng Pik Yuk will also provide training to Ms. Zhang by introducing her the relevant provisions and requirements of the Listing Rules to enhance and improve Ms. Zhang's knowledge and familiarity with the requirements of the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.17 of the Listing Rules in respect of the qualifications of our company secretary and the Hong Kong ordinary residence requirement for an initial period of three years from the Listing Date. Upon expiry of the period, our Company will re-evaluate the qualifications of Ms. Zhang to determine whether the requirements as stipulated in Rule 8.17 of the Listing Rules can be satisfied. At the end of the three-year period, we will liaise with the Stock Exchange and the Stock Exchange will revisit the situation in the expectation that we will then be able to demonstrate to the Stock Exchange's satisfaction that Ms. Zhang, having the benefit of Ms. Cheng's assistance for three years, will have acquired the relevant experience under Rule 8.17(3) of the Listing Rules such that a further waiver will not be necessary.

PRE-IPO SHARE OPTION SCHEME

We have applied for (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) and paragraph 27 of Part A of Appendix 1 to the Listing Rules; and (ii) a certificate of exemption under Section 342A of the Companies Ordinance from the SFC from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance. Our applications are based on the grounds set forth below, and the Stock Exchange and the SFC have granted the respective waiver and certificate of exemption subject to certain conditions:

- (a) in light of the large number of grantees involved (225 grantees in total), strict compliance with such disclosure requirements, in setting out full details of all grantees under the Pre-IPO Share Option Scheme in the prospectus, would be unduly burdensome for the Company;
- (b) the grant and exercise in full of the options granted under the Pre-IPO Share Option Scheme will not cause any material adverse impact in the financial position of the Company;
- (c) non-compliance with the disclosure requirements does not prevent the Company from providing an informed assessment of the activities, assets, liabilities, financial position, management and prospects of the Company to its potential investors;
- (d) all information of the options granted to (i) Directors, (ii) senior management, (iii) personnel who have been granted with 600,000 options or more under the Pre-IPO Share Option Scheme and (iv) grantees who are also connected persons of our Company would be disclosed in the section headed "Pre-IPO Share Option Scheme" in Appendix VI of the prospectus, which would provide potential investors with sufficient information to make informed decision; and
- (e) all material information of the Pre-IPO Share Option Scheme that is reasonably necessary for potential investors to make an informed assessment of the activities and financial position of the Company have been included in this prospectus. Non-compliance with the disclosure requirements will not prejudice the interest of the investing public.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

The Stock Exchange has granted the waiver to us on the condition that the following particulars are set out in the Company's prospectus and the prospectus will be issued on or before April 11, 2011:

- (a) the aggregate number of shares subject to the outstanding options granted under the Pre-IPO Share Option Scheme and the percentage to the Company's total issued share capital represented by such number of shares;
- (b) on an individual basis, full details of each option holder under the Pre-IPO Share Option Scheme who is (i) a Director of the Company; (ii) a member of the senior management of the Company; (iii) a connected person of the Company; or (iv) a grantee who has 600,000 or more Shares exercisable under the options granted, including all particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance;
- (c) in respect of the options granted by the Company under the Pre-IPO Share Option Scheme other than those referred to in sub-paragraph (b) above, (i) the aggregate number of grantees and the number of shares subject to the options; (ii) the consideration paid for the grant of the options; and (iii) the exercise period and the exercise price for the options;
- (d) dilution effect to the shareholding in the Company and impact on the earnings per Share; and
- (e) a list of all the grantees (including those persons whose details have already been disclosed in the Prospectus) who have been granted options under the Pre-IPO Share Option Scheme containing all the particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance be made available for public inspection in accordance with the paragraph entitled "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus.

The SFC (pursuant to Section 342A of the Companies Ordinance) has granted the certificate of exemption to us on the condition that the following particulars are set out in the Company's prospectus and the prospectus will be issued on or before April 11, 2011:

- (a) on an individual basis, full details of each option holder under the Pre-IPO Share Option Scheme who is (i) a Director of the Company; (ii) a member of the senior management of the Company; (iii) a connected person of the Company; or (iv) a grantee who has 600,000 or more Shares exercisable under the options granted, including all particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance;
- (b) in respect of the options granted by the Company under the Pre-IPO Share Option Scheme other than those referred to in sub-paragraph (a) above, (i) the aggregate number of grantees and the number of shares subject to the options; (ii) the consideration paid for the grant of the options; and (iii) the exercise period and the exercise price for the options; and
- (c) a list of all the grantees (including those persons whose details have already been disclosed in the Prospectus) who have been granted options under the Pre-IPO Share Option Scheme containing all the particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance be made available for public inspection in accordance with the paragraph entitled "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus.

Further details of the options under the Pre-IPO Share Option Scheme are set out in the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES
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CONTINUING CONNECTED TRANSACTIONS

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, waivers in relation to certain continuing connected transactions under Chapter 14A of the Listing Rules. For further details, please refer to the section headed “Connected Transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to our Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer, which forms part of the Global Offering. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The listing of our Shares on the Stock Exchange is sponsored by Morgan Stanley. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date. The Global Offering is managed by the Joint Bookrunners.

The International Offering is expected to be underwritten by the International Underwriters.

For further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this prospectus.

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Selling Shareholder, the Joint Bookrunners, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering", and the procedures for applying for Public Offer Shares are set out in the section headed "How to Apply for Public Offer Shares" and on the relevant Applications Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including the Offer Shares and any Shares which may be issued or sold pursuant to the Capitalization Issue, the exercise of the Over-allotment Option or any share options under the Pre-IPO Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on April 21, 2011. None of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in our Shares. None of us, the Selling Shareholder, the Joint Bookrunners, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of, or dealing in, Shares.

SHARE REGISTER AND STAMP DUTY

All Shares issued and to be issued pursuant to applications made in the Global Offering will be registered on our register of members to be maintained by Computershare Hong Kong Investor Services Limited in Hong Kong. Only Shares registered on our Company's register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in the Shares registered on our Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

PROCEDURE FOR APPLYING FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in the section headed "How to Apply for Public Offer Shares" and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering".

EXCHANGE RATE

Solely for convenience purposes, this prospectus includes translations of certain Renminbi amounts into Hong Kong dollars. No representation is made that the Renminbi amounts could actually be converted into such foreign exchange at the rate indicated, or at all. Unless otherwise indicated, the translation of Renminbi into Hong Kong dollars was made at the rate of RMB0.8509 to HK\$1.00, the exchange rate prevailing on December 31, 2010 published by the PBOC for foreign exchange transactions.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors		
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Datuk Syed Hisham Bin Syed Wazir	No. 1, Jalan USJ 18/F 47630 UEP Subang Jaya Selangor Darul Ehsah Malaysia	Malaysian
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Independent Non-Executive Directors		
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Lee Siang Chin	31-1-1 Intan Kenny Persiaran Bukit Tunku Bukit Tunku 50480 Kuala Lumpur Malaysia	Malaysian

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
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PARTIES INVOLVED IN THE GLOBAL OFFERING**Sole Global Coordinator and Sole Sponsor**

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46th Floor, International Commerce Centre
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Hong Kong

Joint Bookrunners and Joint Lead Managers

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BOCOM International Securities Limited
201 Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Co-Managers

First Shanghai Securities Limited
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71 Des Voeux Road Central
Hong Kong

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The Landmark
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Central
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P.O. Box 2681,
Grand Cayman,
KY1-1111
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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING
--

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Receiving Banker

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CORPORATE INFORMATION

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Headquarter	No. 1825, Luodong Road Baoshan Industrial Zone Shanghai PRC
Principal Place of Business in Hong Kong	9th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Central Hong Kong
Company's Website	www.hilonggroup.net (contents on our website do not constitute a part of this prospectus)
Joint Company Secretary	Zhang Shuman Cheng Pik Yuk (<i>HKICS</i>) c/o Tricor Services Limited Level 28, Three Pacific Place 1 Queen's Road East Hong Kong
Authorized Representatives	Zhang Jun (張軍) Room 2102, No. 1 Block No. 88 Jianguo Road Chaoyang District Beijing China Zhang Shuman (張妹嫻) Room 401, No. 56, 8th District Jinqiu Road Lane 699 Baoshan District Shanghai China
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Remuneration Committee	Yuan Pengbin (袁鵬斌) Wang Tao (王濤) Lee Siang Chin
Nomination Committee	Zhang Shuman (張妹嫻) Wang Tao (王濤) Liu Qihua (劉奇華)

CORPORATE INFORMATION

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China Merchants Bank, Baoshan branch
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INDUSTRY OVERVIEW

Certain information and statistics relating to our industry provided in this section and elsewhere in this prospectus have been derived from official government sources. In addition, this section contains information extracted from a commissioned report prepared by Spears and Associates, or the Spears' Report, for purposes of this prospectus. See "—About This Section". We paid a total of US\$33,000 to Spears and Associates for the preparation and use of the Spears Report. We believe that the sources of the information in this "Industry Overview" section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, the information has not been independently verified by us, the Selling Shareholder, the Sponsor, the Joint Bookrunners, any of the Underwriters or any other party involved in the Global Offering, other than Spears and Associates with respect to the Spears' Report.

GLOBAL OIL AND GAS MARKET

The global economic recession that began in 2008 and continued into 2009 had a profound impact on world energy demand, as global marketed energy consumption decreased in 2009 for the first time since 1982. However, in the longer term, energy demand growth is expected to recover as the global economy resumes its growth.

Oil, among all types of fuels, has been the most important source for energy in recent decades, followed by coal, natural gas, nuclear and renewable energies. According to EIA, oil is expected to remain the largest source for energy accounting for about 30.3% of global primary energy consumption in 2035. Total global oil consumption is expected to grow by 28.5% from 2007 to 2035. In the same period, China, driven by its strong economic growth, is expected to have the highest oil consumption growth, at a 2.9% CAGR. In addition, oil consumption growth is higher in non-OECD region, at a 1.8% CAGR compared with OECD region at 0.1% CAGR.

World Oil Consumption by Region

	2005	2006	2007	2015E	2020E	2025E	2030E	2035E	2007 as % of total	2035E as % of total	2007- 2035E CAGR
OECD											
OECD North America	25.2	25.0	25.1	24.6	25.0	25.7	26.4	27.4	29.2%	24.8%	0.3%
—United States	20.8	20.7	20.6	20.2	20.6	21.0	21.5	22.1	23.9%	20.0%	0.3%
—Canada	2.3	2.3	2.3	2.2	2.2	2.2	2.3	2.4	2.7%	2.2%	0.2%
—Mexico	2.1	2.1	2.1	2.2	2.3	2.4	2.7	2.9	2.4%	2.6%	1.2%
OECD Europe	15.7	15.7	15.3	14.0	13.4	13.4	13.6	13.7	17.8%	12.4%	-0.4%
OECD Asia	8.6	8.5	8.4	7.7	8.0	8.1	8.3	8.4	9.8%	7.6%	0.0%
—Japan	5.3	5.2	5.0	4.2	4.3	4.3	4.2	4.1	5.8%	3.7%	-0.7%
—South Korea	2.2	2.2	2.2	2.4	2.5	2.7	2.9	3.1	2.6%	2.8%	1.2%
—Australia/New Zealand	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.3%	1.1%	0.3%
Total OECD	49.5	49.1	48.8	46.3	46.4	47.2	48.3	49.5	56.7%	44.8%	0.1%
Non-OECD											
Non-OECD Europe and											
Eurasia	4.9	5.0	5.1	4.9	4.9	5.0	5.1	5.4	5.9%	4.9%	0.2%
—Russia	2.8	2.9	2.9	2.8	2.7	2.7	2.7	2.8	3.4%	2.5%	-0.1%
—Other	2.1	2.2	2.2	2.1	2.2	2.3	2.4	2.5	2.6%	2.3%	0.5%
Non-OECD Asia	15.4	16.2	16.8	20.1	22.7	25.9	29.1	32.3	19.5%	29.2%	2.4%
—China	6.7	7.3	7.6	10.0	11.6	13.5	15.3	16.9	8.8%	15.3%	2.9%
—India	2.5	2.7	2.8	3.2	3.6	3.9	4.3	4.7	3.3%	4.2%	1.9%
—Other Non-OECD Asia	6.2	6.2	6.3	6.9	7.6	8.5	9.5	10.7	7.3%	9.7%	1.9%
Middle East	5.8	6.0	6.4	7.2	7.8	8.5	9.5	11.0	7.4%	9.9%	2.0%
Africa	3.0	3.0	3.1	3.5	3.6	3.9	4.2	4.6	3.6%	4.2%	1.4%
Central and South America	5.5	5.8	6.0	6.6	6.7	7.0	7.5	8.0	7.0%	7.2%	1.0%
Brazil	2.2	2.3	2.4	2.8	3.0	3.3	3.6	4.0	2.8%	3.6%	1.8%
Other Central and South America ..	3.3	3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.2%	3.6%	0.4%
Total Non-OECD	34.6	36.1	37.3	42.4	45.7	50.4	55.6	61.1	43.3%	55.2%	1.8%
Total World	84.0	85.2	86.1	88.7	92.1	97.6	103.9	110.6	100%	100%	0.9%

Source: EIA

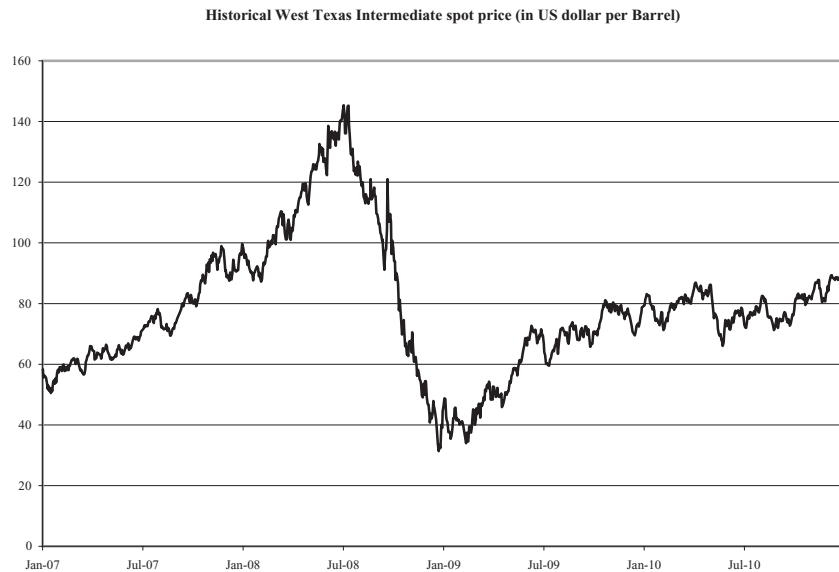
INDUSTRY OVERVIEW

Oil and gas demand has steered and will continue to steer increasing investment across the global oil and gas industry infrastructure, both upstream and downstream. According to BP Statistics Review 2010, in 2009, as a result of the financial crisis, global oil production dropped 2.5% from 2008, to 80 million barrels per day, while oil consumption dropped 1.4% in the same period to 84 million barrels per day, the largest annual drop since 1982. OECD consumption fell by 4.3%, the fourth consecutive annual decline, while outside the OECD, consumption growth slowed to 2.3%, the weakest annual percentage growth since 2001. China, India and Middle Eastern countries accounted for almost all of the non-OECD growth. The global economic crisis as well as general negative sentiment regarding the economy resulted in a steep fall in the oil price, the West Texas Intermediate spot price falling from a high of over \$145 per barrel in July 2008 to a five-year low of \$31 per barrel by December 2008. In 2009, oil prices began below \$40 per barrel, but increased slowly throughout the year as investors became increasingly optimistic that the global economy would recover faster than expected. Despite the recent fluctuations in the oil price, official sources, including EIA, forecast that global oil demand will continue to grow.

The dramatic fall and slow recovery of the oil price, as well as field operators' expectations regarding future growth in oil consumption, had a significant negative impact on global upstream oil and gas sector activity, which in turn negatively impacted the activity and performance of oilfield equipment manufacturers for the 2009.

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The following two charts set forth historical West Texas Intermediate spot prices and U.S. Henry Hub Gas prices during the Track Record Period.



Source: Bloomberg

GLOBAL OILFIELD DRILLING SERVICES MARKET

Overview

The oilfield drilling services market addressed in this section includes the following services:

- Onshore contract drilling: performed by the drilling contractor that owns and operates a drilling rig. The drilling contractor usually charges a fixed daily rate for the use of its rig and crew, plus certain operating expenses such as mobilizing/demobilizing the rig, fuel, etc. Land contract drilling is typically a highly fragmented, localized, cyclical business. When demand drops, rig rates fall quickly toward cash costs as contractors take steps to keep their rig utilization high. As utilization exceeds 90%, day rates begin rising quickly since supply is inelastic. In North America most rigs are hired only on a per-well or short-term basis and serve the market within a 50 mile radius from its yard. Internationally,

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most rigs work under long-term (up to three year) day rate contracts, but rigs rarely cross national borders in order to secure contracts.

- Mud engineering consists of testing the drilling fluids or mud, at a rig and prescribing mud treatments to maintain mud weight, properties and chemistry to optimize mud performance. Mud companies almost always have a mud engineer on duty at the rig, either on a full-time or part-time basis. The mud engineer may be provided by the mud company providing the product to the customer (typical in North America) or hired separately by the operator from a third party not associated with the products used (typical outside North America).
- Cementing: takes place when cement is prepared and pumped into place in a wellbore. Cementing operations may be performed in order to seal the annulus after a casing string has been run, to seal a lost circulation zone, to set a plug in a well in order to assist in further drilling, or to plug a well so that it may be abandoned. A cementing crew uses special mixers and pumps to displace drilling fluids and place cement in the wellbore. For a new well, cementing typically takes place three or four times during the drilling process: to set conductor pipe, to set surface casing, to set intermediate casing, and to set production casing.

Spears and Associates estimate that the onshore contract drilling, mud engineering and cementing services markets totaled US\$25.3 billion, US\$1.3 billion and US\$7.7 billion respectively in 2009. For all three services, North America is the largest regional market, followed by South America, China and Russia.

The future growth of the oilfield service market is closely linked to the upstream capital expenditure made by oil companies, which is driven by the oil price. Based on Spears and Associates' current oil price forecast from 2009 to 2015, in North America, the largest market by number of land rigs, the total land rig count is expected to grow at a CAGR of 10.7% to 2,322 in 2015 while total onshore drilling and well completion services spending, which totaled at US\$79.3 billion in 2009, is expected to grow at 13.7% CAGR to reach US\$171.2 billion by the end of 2015. In another major market, Russia, the total land rig count is 758 in 2009, and is expected to grow at 3.0% CAGR through year 2015 to 904, while total spending in onshore drilling is forecasted to grow at 5.4% CAGR to reach US\$12.4 billion by 2015.

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Global Oilfield Drilling Service Market⁽¹⁾

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2009 as % of total	2009- 2015E CAGR
Onshore Contract Drilling Market (US\$ Billion)													
China	2.8	3.1	3.2	3.2	3.0	3.0	3.1	3.2	3.4	3.5	3.7	11.9%	3.6%
North America	10.3	15.4	15.6	16.8	9.5	13.2	15.4	16.3	17.2	18.2	19.2	37.5%	12.4%
South America	1.7	2.1	2.9	3.7	3.6	3.5	3.8	4.0	4.2	4.4	4.7	14.2%	4.5%
Europe	0.1	0.2	0.2	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	1.6%	3.8%
Africa	0.5	0.6	0.9	1.2	1.1	1.1	1.2	1.3	1.4	1.6	1.7	4.3%	7.5%
Mid East	1.1	1.3	1.9	2.2	2.2	2.0	2.1	2.2	2.3	2.4	2.5	8.7%	2.2%
Far East	0.9	1.1	1.5	1.9	2.0	1.9	2.0	2.1	2.3	2.4	2.6	7.9%	4.5%
Russia	1.6	2.0	2.4	2.7	2.8	2.9	3.1	3.3	3.5	3.6	3.8	11.1%	5.2%
Central Asia	0.6	0.7	0.8	0.9	0.8	0.9	0.9	1.0	1.0	1.1	1.1	3.2%	5.5%
Total	19.8	26.5	29.3	33.1	25.3	28.9	32.2	33.9	35.8	37.8	39.8	100.0%	7.8%
Mud Engineering Services Market (US\$ Billion)													
China	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	17.7%	3.9%
North America	0.5	0.6	0.6	0.7	0.4	0.6	0.7	0.7	0.7	0.8	0.8	30.0%	12.7%
South America	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	10.8%	7.8%
Europe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	3.1%	3.8%
Africa	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	3.1%	12.2%
Mid East	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	5.4%	6.1%
Far East	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	7.7%	7.0%
Russia	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	16.2%	5.5%
Central Asia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	5.4%	6.1%
Total	1.3	1.5	1.5	1.6	1.3	1.5	1.7	1.8	1.9	2.0	2.1	100.0%	8.2%
Cementing Services Market (US\$ Billion)													
China	1.3	1.3	1.3	1.5	1.3	1.3	1.3	1.4	1.5	1.5	1.6	16.9%	3.5%
North America	5.4	5.9	5.8	6.3	4.0	5.7	6.7	7.1	7.5	7.9	8.3	51.9%	12.9%
South America	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.9	7.8%	7.0%
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	2.6%	7.0%
Africa	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	3.9%	4.9%
Mid East	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	2.6%	7.0%
Far East	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	6.5%	5.8%
Russia	0.3	0.4	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.8	7.8%	4.9%
Central Asia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.3%	0.0%
Total	8.6	9.4	9.5	10.3	7.7	9.6	10.8	11.4	12.0	12.7	13.4	100.0%	9.7%
Total Onshore Rig Count													
North America	1,741	2,026	2,035	2,194	1,265	1,858	2,107	2,153	2,213	2,272	2,322	N/A	10.7%
Russia	439	539	648	734	758	790	835	852	869	886	904	N/A	3.0%
Total Drilling and Well Completion Services Spending (Onshore, US\$ Billion)													
North America	76.4	110.6	121.7	148.3	79.3	120.2	142.7	148.9	156.3	164.0	171.2	N/A	13.7%
Russia	4.8	6.0	7.8	9.7	9.0	8.5	9.4	10.1	10.8	11.5	12.4	N/A	5.4%

Source: the Spears' Report

(1) Throughout this section, the following regions have been defined as follows: "Central Asia" consists of Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, and Ukraine; "Mid East" consists of Iran, Iraq, Israel, Kuwait, Oman, Qatar, Saudi Arabia, Syria, Turkey, UAE, and Yemen; "Far East" consists of Australia, India, Indonesia, Japan, Malaysia, Myanmar, New Zealand, Pakistan, Papua New Guinea, Thailand, and Vietnam; and "China", for purposes of this section only, includes Hong Kong.

Major Service Providers

All the three service segments are dominated by North America based multinational firms. In the onshore contract drilling market, there are an estimated 500 drilling contractors, of which 70% are in North America. Leading service providers include Nabors Industries, Helmerich & Payne, and Weatherford. M-I Swaco (a division of Schlumberger), Baroid (a division of Halliburton), and Inteq (a division of Baker Hughes International) are the major services providers in the mud engineering market. Halliburton, Schlumberger, and BJ Services (a division of Baker Hughes International) have the biggest share of the cementing services market.

A number of the major services providers have integrated along the value chain to save costs and achieve superior performance. For instance, a contract drilling firm which also makes drill pipe potentially has a cost

INDUSTRY OVERVIEW

advantage over other contract drilling firms which must source their drilling equipment from third parties at market prices. For most contract drilling firms, approximately 25-30% of its capital outlays will be spent on purchasing drill pipes, hence savings of the cost of procuring drill pipe by procuring it in-house would allow an onshore drilling contractor to charge lower rig rates, providing an advantage when competing for work for price-conscious oil and gas companies. Another potential advantage of a contract drilling firm that makes drill pipe is that it may be able to leverage proprietary information (acquired through drill pipe research and development) in such as way as to achieve superior drilling performance.

For example, Nabors Industries, the largest onshore contract drilling company, also owns rig data acquisition and information management products and services. Halliburton, the largest pressure pumping services company, manufactures its own cementing and stimulation equipment, while Schlumberger, Halliburton, and Baker Hughes, the leading directional drilling service companies, manufacture their own directional drilling tools.

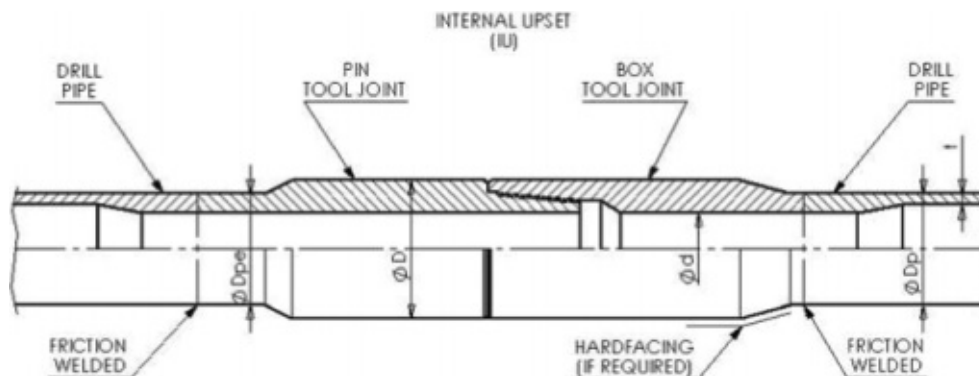
GLOBAL DRILL PIPE MARKET

Overview

The drill pipe market as addressed here includes the sale of drill pipe, drill collar, and heavy weight drill pipe. It excludes the sale of non-magnetic drill collar:

- Drill pipe is used during drilling operations to connect the surface drilling equipment to the bottom hole assembly and the drill bit. A drill pipe transmits power from the drilling motor above ground to the drill bit and conducts drilling fluid (mud) down to the drill bit to flush drill cuttings to the surface for removal. A section of drill pipe is called a “joint”; each joint is normally about thirty feet long with an outer diameter (OD) ranging from 2.375 to 6.625 inches, is joined to one another by tool joints to form the drill string
- A drill string is composed of drill collar at the bottom, which are connected to heavy weight drill pipe, which are then connected to standard weight drill pipe, which normally accounts for the vast majority of the drill string.
- Drill collars are a part of the drill string that provides weight on bit for drilling
- Heavy weight drill pipe (HWDP) is a type of drill pipe whose walls are thicker and collars are longer than conventional drill pipe. HWDP tends to be stronger and has higher tensile strength than conventional drill pipe, so it is placed near the bottom of a long drill string for additional support

Drill Pipe with Weld-On Tool Joint Assembly



Spears and Associates estimate that the global drill pipe market totaled 17.2 million feet, or US\$647 million in 2009. The market is forecast to increase, in dollar terms, at a 13.3% CAGR from 2009 to 2015, reaching

INDUSTRY OVERVIEW

US\$1,368 million, driven by both increasing demand for drill pipe due to increasing drilling activities and a higher average selling price.

The demand for drill pipe is largely driven by the replacement of existing drill pipes, which accounts for approximately 80% of total demand. The remaining 20% of drill pipes are for the construction of new rigs. Routine maintenance accounts for only about half of total drill pipe replacement demand. On average, about 20%-30% of a drill string is replaced each year due to normal wear and tear; the rest of drill pipe replacement demand is associated with drill pipe that is lost downhole.

Depending on the grade, drill pipe is currently selling for \$3,000 to \$6,000 a short ton. Over the past year drill pipe prices have rebounded from their 2009 lows and are currently selling near 2006-2008 price levels. Drill pipe prices are expected to rise about 5% per year.

Historically, North America has been the largest regional market, followed by China, Russia, and South America. Outside of Russia, drilling contractors almost exclusively use drill pipe that meets or exceeds API (American Petroleum Institute) specifications. Most drill pipe in Russia is manufactured to GOST standards; as a result, very little Russian made drill pipe is exported. Russia, Central Asia and North America are expected to be the fastest growing regions globally.

Global Drill Pipe Market

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>	<u>2015E</u>	<u>2009 as % of total</u>	<u>2009- 2015E CAGR</u>
US\$ Million													
China	153	161	164	209	154	157	167	177	188	199	211	23.8%	5.4%
North America ...	396	439	432	563	295	425	507	544	587	633	679	45.6%	14.9%
South America ...	45	48	52	66	55	58	64	69	75	81	88	8.5%	8.1%
Europe	12	12	13	15	12	13	14	15	16	17	18	1.9%	7.0%
Africa	14	18	20	25	20	24	26	28	31	34	37	3.1%	10.8%
Mid East	22	23	26	31	24	25	27	29	31	33	35	3.7%	6.5%
Far East	30	31	31	37	32	34	37	40	44	47	51	4.9%	8.1%
Russia	82	102	121	165	45	69	112	176	189	202	216	7.0%	29.9%
Central Asia	15	20	21	27	10	13	18	26	28	30	32	1.5%	21.4%
Total	<u>769</u>	<u>855</u>	<u>881</u>	<u>1,138</u>	<u>647</u>	<u>818</u>	<u>973</u>	<u>1,105</u>	<u>1,188</u>	<u>1,276</u>	<u>1,368</u>	<u>100.0%</u>	<u>13.3%</u>
Million FT													
China	5.1	5.4	5.5	5.8	5.1	5.2	5.3	5.4	5.4	5.5	5.5	29.7%	1.3%
North America ...	9.9	11	10.8	11.8	7.4	10.6	12.1	12.3	12.7	13	13.3	43.0%	10.3%
South America ...	0.9	1	1	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.4	6.4%	4.1%
Europe	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.2%	7.0%
Africa	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	2.3%	7.0%
Mid East	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	2.9%	3.1%
Far East	0.6	0.6	0.6	0.7	0.6	0.7	0.7	0.7	0.8	0.8	0.8	3.5%	4.9%
Russia	2.7	3.4	4	4.6	1.5	2.3	3.6	5.3	5.4	5.5	5.7	8.7%	24.9%
Central Asia	0.5	0.7	0.7	0.8	0.3	0.4	0.6	0.8	0.8	0.8	0.8	1.7%	17.8%
Total	<u>20.7</u>	<u>23.1</u>	<u>23.9</u>	<u>26</u>	<u>17.2</u>	<u>21.7</u>	<u>24.7</u>	<u>27.1</u>	<u>27.7</u>	<u>28.3</u>	<u>28.9</u>	<u>100.0%</u>	<u>9.0%</u>

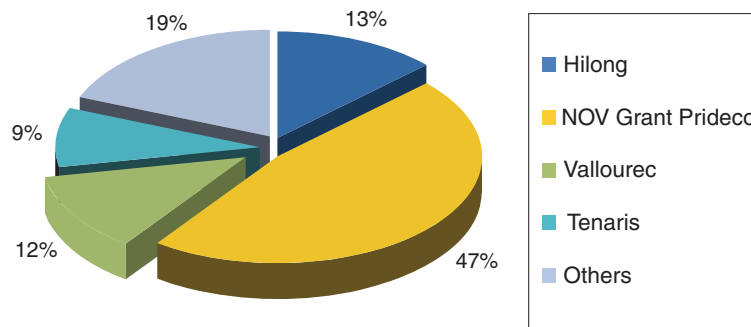
Source: the Spears' Report

INDUSTRY OVERVIEW

Leading Manufacturers

Globally, the drill pipe market is dominated by NOV Grant Prideco, Hilong, Vallourec, and Tenaris, who have 47%, 13%, 12% and 9% of the global market share respectively, based on 2009 sales. Hilong held 10% and 16% of the global drill pipe market in terms of sales in 2007 and 2008, respectively.

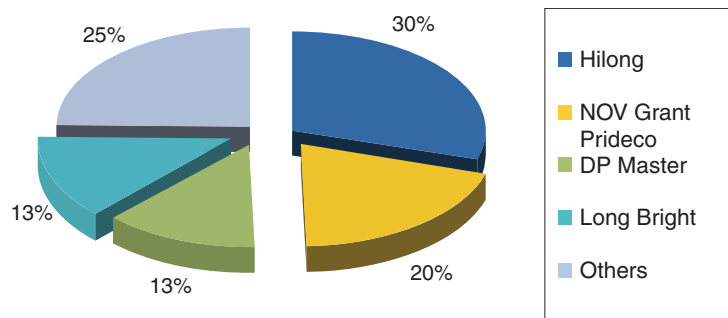
Global Drill Pipe Market - 2009 Sales



Source: the Spears' Report

The Chinese drill pipe market is led by Hilong; in terms of sales it is estimated to have held about 30% of this market over the 2007 to 2009 timeframe on the strength of its position as the leading drill pipe supplier to both CNPC and Sinopec, the two largest operators in China which are estimated to combine to account for over 90% of the Chinese drill pipe market. Other significant suppliers to the Chinese drill pipe market include Grant Prideco (with approximately 20% of the market), and DP Master and Long Bright (each with an estimated 10%-15% of the market). The balance of the Chinese drill pipe market is believed to be divided among 15-20 other firms.

Chinese Drill Pipe Market - 2009 Sales



Source: the Spears' Report

Russia is expected to be the fastest growing market with a 2009-2015 CAGR of 29.9% according to Spears and Associates. Russian pipe manufacturers are estimated to capture about 30% of the Russian drill pipe market, while importers (primarily Chinese) hold an estimated 70% of the Russian market. According to the same source, Hilong is estimated to be the leading foreign supplier to the Russian market, with an estimate 20% share of the market. In Russia, unlike other markets, aluminum drill pipe is often used to drill deviated wells in part because of its superior fatigue resistance but also due the benefit of its lower weight than conventional steel pipe, which is an important factor due to limitations on the hoisting capacity of drilling rigs built during the Soviet era.

The North American market is dominated by Grant Prideco, which is estimated to capture 70%-75% of this market, Vallourec (10%-15%), and Tenaris (10%). At present, access to the North American and European markets by Chinese drill pipe suppliers is restricted because of high tariffs.

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R&D and Innovation Trends

New oil and gas reservoirs are increasingly found at greater depths, or in extreme or low temperature or highly corrosive environments. These situations push the design capabilities of products across the entire oilfield supply chain, including drill pipe. In recent years drill pipe R&D has focused on materials research to develop:

- lighter weight pipe for use in drilling ultra-deep (over 5,000 meter) wells;
- fatigue-resistant pipe for use in drilling horizontal wells; and
- corrosion-resistant alloys, extreme temperature, and sour service steels for use in “critical service” applications

Hardbanding Market

Hardbanding is a key component in drill pipe manufacturing. A hard-metal facing (i.e., hardband) is often applied in a band around the outside of the tool joint and on the center wear pad to enable the drill pipe to resist abrasion from the walls of the borehole and extended service life. Hardbanding increases tool joint life and reduces casing wear and is applied to the tool joint prior to the joint being welded to the pipe body. It is applied under very closely controlled conditions resulting in a uniform, wear-resistant surface. It can be flushed, raised, and machined finished. The application of the heavy-duty hardmetal facing is a closely controlled welding process applied with an automatic hardbanding machine.

According to Spears and Associates, the global hardbanding market is estimated to have totaled almost US\$32 million in 2009. The primary independent suppliers of hardbanding materials are Arnco Technology Trust, Postle Hardbanding Solutions, and Liquidmetal Technologies. In addition, drill pipe manufacturers that also supply hardbanding products include Hilong, NOV Grant Prideco (through its Tuboscope division), and VAM Drilling. The major participants in the Chinese hardbanding market include Hilong and Arnco.

Global Hardbanding Market

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2009 as % of total	2009- 2015E CAGR
US\$ Million													
China	8	8	8	9	8	8	8	9	9	10	11	25.0%	5.5%
North America	20	22	22	24	15	21	25	27	29	32	34	46.9%	14.6%
South America	2	2	3	3	3	3	3	3	4	4	4	9.4%	4.9%
Europe	1	1	1	1	1	1	1	1	1	1	1	3.1%	0.0%
Africa	1	1	1	1	1	1	1	1	2	2	2	3.1%	12.2%
Mid East	1	1	1	1	1	1	1	1	2	2	2	3.1%	12.2%
Far East	1	2	2	2	2	2	2	2	2	2	3	6.3%	7.0%
Russia	4	5	6	7	2	3	6	9	9	10	11	6.3%	32.9%
Central Asia	1	1	1	1	1	1	1	1	1	1	2	3.1%	12.2%
Total	38	43	44	48	32	41	49	55	59	64	68	100.0%	13.4%

Source: the Spears Report

GLOBAL LINE PIPE COATING MATERIALS MARKET

Overview

Steel pipelines are used to transport natural gas, crude oil, water, petrochemical and petroleum products at high pressures over long distances. Line pipe coating involves the coating of onshore and offshore steel pipes with protective layers both externally and internally to prevent corrosion from the surrounding substrate. External pipe coating also provides mechanical protection for the underlying steel pipe. Given that the pipes are generally

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bare steel, coating it with different layers of plastic and concrete prevents seawater or groundwater from attacking the steel pipe, prolonging its life. Coating of pipes represents 5-6% of the total pipeline cost in the overall scheme of design, manufacturing and installation of a pipeline project, but plays a very critical role. Aside from providing corrosion and mechanical protection, the pipe coating must be flexible enough to bend with the pipe and applied evenly to prevent any pockets where corrosion may accelerate.

Five main coating systems are used for onshore pipelines, three layer polyethylene (3LPE), three layer polypropylene (3LPP), fusion bonded epoxy (FBE or Dual FBE), coal tar enamel (CTE), asphalt enamel and polyurethane (PUR). The different systems are specified by pipeline owners and engineering firms depending on short term and long term cost, captive usage, regional availability of the coating material, control on handling, transportation and installation of pipelines, and technical reasons. Spears and Associates estimate the market size of the line pipe coating services to be 1,977 million square feet in 2009.

Global Line Pipe Coating Demand

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2009 as % of total</u>	<u>2009- 2015E CAGR</u>
Million Square Feet													
China	141	246	312	408	412	325	334	344	355	365	376	20.8%	-1.5%
North America	184	171	184	220	234	259	266	274	283	291	300	11.8%	4.2%
South America	72	36	32	79	130	66	68	70	72	74	76	6.6%	-8.6%
Europe	24	13	49	30	12	30	31	32	33	34	35	0.6%	19.5%
Africa	5	60	35	107	172	234	241	248	256	264	271	8.7%	7.9%
Mid East	54	132	213	366	482	729	751	773	797	820	845	24.4%	9.8%
Asia Pacific	330	574	728	613	412	325	334	344	355	365	376	20.8%	-1.5%
Russia	163	91	339	209	81	206	212	218	225	231	238	4.1%	19.7%
Central Asia	82	46	170	105	41	103	106	109	112	116	119	2.1%	19.4%
Total	<u>1,055</u>	<u>1,370</u>	<u>2,063</u>	<u>2,137</u>	<u>1,977</u>	<u>2,275</u>	<u>2,343</u>	<u>2,414</u>	<u>2,486</u>	<u>2,561</u>	<u>2,637</u>	<u>100.0%</u>	<u>4.9%</u>

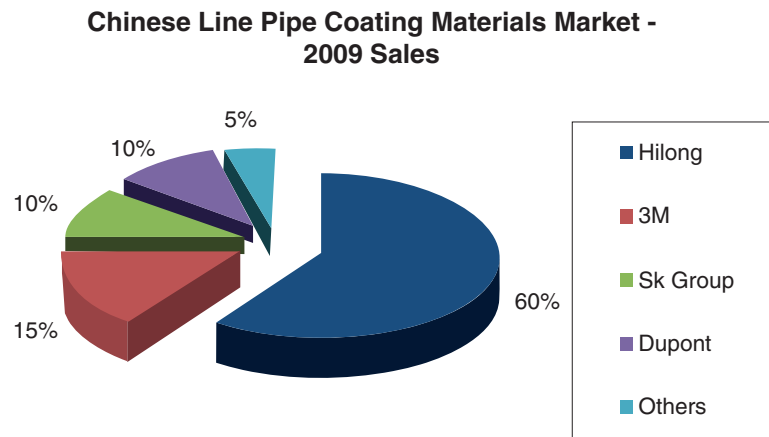
Source: the Spears' Report

In the five-year period from 2005 through 2009, measured by total area, global line pipe coating demand grew at a CAGR of 17.0%, and is forecast to grow at a CAGR of 4.9% till 2015. The growth of this market is closely linked to pipeline construction activity, which is expected to grow rapidly, driven by the increasing demand for energy worldwide and a global remapping of energy demand and supply dynamics.

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Major Line Pipe Coating Materials Suppliers

The global line pipe coating materials market is estimated to be US\$625 million in 2010, according to Spears. The leading suppliers in the market include 3M, DuPont, Akzo Nobel, Socotherm, Borealis/Borouge, and LyondellBasell. The global market is dominated by 3M. The Company is estimated to do over US\$800 million per year in pipe coatings across all industries, including steel line pipe, as well as refining/petrochemical and water pipes. Based on 2009 sales, Hilong is the leading supplier to the \$82 million Chinese steel line pipe coating materials market, with approximately 60% of the market. Other significant players in the Chinese line pipe coating materials market include 3M (with an estimated 15% of the 2009 market), SK Group (10%), and Dupont (10%). Hilong held approximately 30%-40% and 50% of the line pipe coating materials market in China in terms of sales in 2007 and 2008, respectively.



Source: the Spears' Report

R&D and Innovation Trends

The key objectives of pipe coating innovations have been:

- to improve the toughness of the coating (impact, abrasion etc);
- to increase the operating temperature range (both on lower and higher side); and
- to secure better long term properties of the coating (Cathodic disbondment, Peel strength, weathering, UV and heat resistance, environmental stress crack resistance).

Pipeline engineers will continue to be challenged by the increasingly corrosive content and harsher operating conditions for oil and gas projects. In particular, unique applications for line pipe coating are likely to be required as new reserves are developed in cold climate and deep water environments.

GLOBAL OCTG COATING MATERIALS AND SERVICES MARKET

Overview

OCTG coating involves the coating of casing, tubing, and drill pipe in order to prevent corrosion and wear and to enhance equipment performance. Specialized coating service firms are used to perform OCTG pipe coating operations; in addition, the larger OCTG coating service firms also provide pipe inspection services. The OCTG coating services market is driven by overall drilling activity, a shift towards deeper drilling, replacement of aging tubulars, demand for higher end tubulars and a growing focus on safety.

North America is the most important market for OCTG coating services, accounting for 56% of the global market, followed by Russia and then China. In all, Spears estimates that the global market for OCTG coating

INDUSTRY OVERVIEW

services totaled US\$188 million in 2009. Based on the outlook for future drilling activity, and assuming OCTG coating prices rise 4%-6% per year, the worldwide OCTG coating market is projected to reach US\$387 million in 2015, representing a CAGR of 12.8%. North America, China, and Africa are expected to be the fastest growing regions.

Global OCTG Coating Materials and Services Market

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2009 as % of total	2009- 2015E CAGR
US\$ million													
China	31	32	35	40	22	22	38	41	43	46	48	12%	13.9%
North America	123	142	147	169	105	152	181	194	210	226	243	56%	15.0%
South America	10	11	13	15	14	15	17	18	19	21	22	7%	7.8%
Europe	3	3	3	4	3	3	4	4	4	4	5	2%	8.9%
Africa	3	5	5	6	5	6	7	7	8	9	10	3%	12.2%
Mid East	5	5	6	7	6	6	7	7	8	8	9	3%	7.0%
Far East	6	7	7	9	8	8	9	10	11	12	13	4%	8.4%
Russia	11	15	18	22	22	23	26	28	29	32	34	12%	7.5%
Central Asia	2	3	3	3	3	3	3	4	4	4	4	2%	4.9%
Total	194	223	238	273	188	239	291	312	336	361	387	100.0%	12.8%

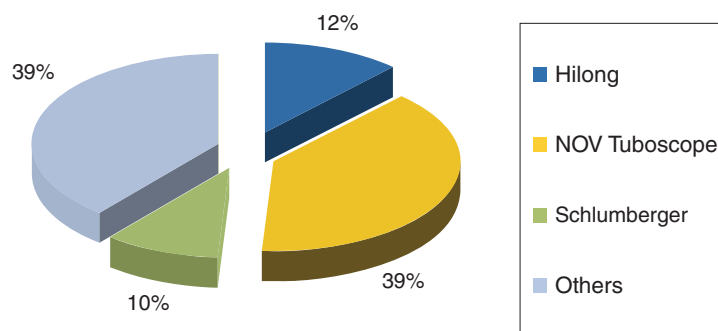
Source: the Spears' Report

Major OCTG Coating Materials and Services Providers

According to the Spears Report, the leading OCTG materials and coating service companies are Hilong, NOV Tuboscope, and Schlumberger. Shawcor and RPC are among the other companies that also participate in the OCTG materials and coating services market.

- Based on 2009 sales, Hilong is the leading Chinese OCTG materials and coating service firm, capturing approximately two-thirds of the Chinese market and 12% of the global market, making it the second largest player globally. Hilong held 8% and 13% of the global OCTG coating materials and services market in terms of sales in 2007 and 2008, respectively, and held 60% and 67% of the OCTG coating materials and services market in China during the same period.
- The Tuboscope division of National Oilwell Varco (NOV) is the largest OCTG coating service firm outside China with a 39% of global market share.
- Schlumberger is a diversified oilfield service firm with operations around the world. Its Smith Services division is primarily involved in the inspection and coating of drill pipe.

Global OCTG Coating Materials and Services Market - 2009 Sales

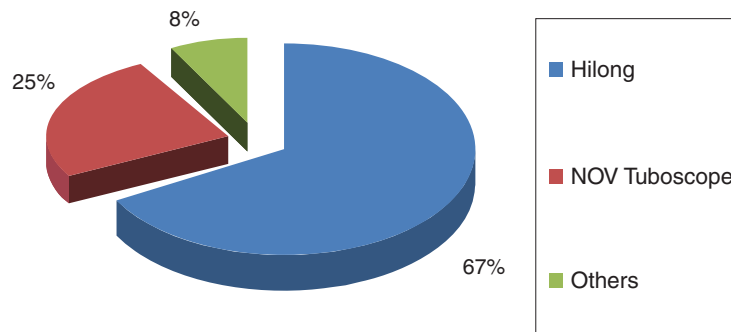


Source: the Spears' Report

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NOV Tuboscope, Hilong and Schlumberger are also the leading coating material suppliers. Hilong produces the TC series of coating and anti-corrosion materials for use on drill pipe, tubing, casing, and line pipe. NOV Tuboscope has approximately 40 internal plastic coatings to protect drill pipe and line pipe specifically. Schlumberger (Smith International) commercializes Sub-One Technology's advanced InnerArmor coating technology for OCTG applications.

**Chinese OCTG Coating Materials and Services
Market - 2009 Sales**



Source: the Spears' Report

R&D and Innovation Trends

The challenges for drill pipe coating engineers include higher downhole temperatures, increasingly acidic drilling fluids, and improved friction loss properties. Newer drill pipe powder coating materials have the ability to withstand formation temperatures of about 400 F, allowing circulation to be reduced without sacrificing performance. Powder coating also performs well with drilling fluids such as zinc bromides and the acids used to drill some wells. Powder coatings have a lower coefficient of friction, allowing higher mud flow rates, allowing drilling contractors to reduce the size of the mud pumps and rig weight at significant savings in total well costs.

ABOUT THIS SECTION

General

This "Industry Overview" section contains information extracted from a commissioned report prepared by Spears and Associates, or the Spears' Report, for purposes of this prospectus. For the full report, see "Industry Consultant Report" in Appendix IV to this prospectus. Other key sources used to prepare this section include BP Statistical Review of World Energy and EIA.

About Spears and Associates

Spears and Associates has provided market research-based consulting services to the worldwide petroleum industry since 1965, specializing in equipment and services used in exploration, drilling and completion, production, transportation and refining. Current and former clients of Spears and Associates include petroleum equipment manufacturers, oilfield service firms, oil and gas producers, financial institutions, trade associations, and the U.S. government. Within this market Spears and Associates provides a wide scope of research and consulting services grouped in the following areas:

- marketing and sales—evaluation of market size and growth, market share, customer satisfaction, technology trends, selection criteria, purchasing process, and benchmarking;
- business development—strategic analysis for mergers and acquisitions, partnering, new technology development and introduction, and competitive analysis;

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- finance and planning—outlook for industry activity and price sensitivity analysis; and
- corporate—strategic review, due diligence and litigation support.

In addition to its market research and consulting assignments, Spears and Associates produces three publications covering the upstream petroleum industry: “Drilling and Production Outlook”, “Oilfield Market Report” and “Pipe Logix”.

Research Background on the Spears’ Report

Over the course of its research, Spears and Associates interviewed approximately 50 people to determine the size of the market, how it is structured, and how it is expected to develop in the future. These interviews were conducted with key industry participants, knowledgeable industry figures such as marketing managers, product managers, and other company executives. Spears and Associates research also relied on its proprietary database of oilfield market segment sales and its internal knowledge of oilfield equipment and service markets developed through working with many of the world’s leading oilfield equipment and service companies. The research team also drew on publicly-available information on energy markets and measures of industry activity. The focus of Spears and Associates research and interviews was on the oilfield drilling services market, the drill pipe market, and the line pipe and OCTG coating materials and services market.

Other Key Sources

The following sets forth our other key sources used to prepare this “Industry Overview” section.

- *BP Statistical Review of World Energy*. BP Statistical Review of World Energy is an annual industry report that provides objective quantitative data on world energy markets. The report has been published for over 50 years and is based on statistics taken from the government, primary sources as well as published data. BP plc, one of the world’s largest oil and gas companies, issues the report annually. The source data is based on contributions from a number of independent organizations including OECD, Platts, World Energy Council, EIA and the Oil and Gas journal.
- *EIA*. The Energy Information Administration, or EIA, is an independent statistical agency within the United States Department of Energy.

REGULATION

This section summarizes the principal regulations relating to the businesses of our subsidiaries in the PRC, as well as our operations in Kazakhstan and Ecuador.

PRC REGULATIONS

Industrial Policy

On November 30, 2007, the NDRC and the MOFCOM jointly issued the current Foreign Investment Industrial Guidance Catalogue (the “Catalogue”) which came into effect on December 1, 2007. The Catalogue classifies industries into three categories: encouraged, restricted and prohibited. Industries that are not indicated as any of the above categories under the Catalogue are permitted areas for foreign investment. Except as otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries not listed as prohibited categories. Part of industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese shareholder as the controlling shareholder. The MOFCOM or the local authorities are responsible for approving foreign investment in China, including the relevant joint venture contracts, articles of association of foreign invested enterprises and other substantial changes to foreign invested enterprises, such as changes to capital, equity transfer and consolidation. Our investments in the PRC are regulated by the foregoing industrial policies, and the core business of our PRC subsidiaries is manufacture of equipment, tools and materials related to oil extraction and oilfield services, which is permitted for foreign investments.

Regulations on the Administration of Permits for the Production of Industrial Products

Pursuant to the Regulations on the Administration of Permits for the Production of Industrial Products promulgated by the State Council on July 9, 2005, which came into force on September 1, 2005, the PRC government has implemented a system to issue production permits to enterprises which are engaged in the production of products that fall within the required catalogue. Enterprises which manufacture products that fall under the catalogue are required to apply for and obtain production permits from designated local authorities. According to the Implementation Rule of Work Safety License for Hazardous Chemical Production Enterprises promulgated by State Administrative of Work Safety on May 17, 2004, enterprises which produce hazardous chemical shall obtain the production permits before commencing the production of such hazardous chemical.

Pursuant to Regulations on Safety Supervision of Special Equipment, which was effective on June 1, 2003 and amended by the State Council on January 24, 2009, the production, usage, and inspection of special equipments, such as boiler, pressure vessels, pressure pipelines, are under the PRC government’s safety supervision. And the production of such special equipment shall obtain the permit from the department of safety supervision of special equipment of State Council.

Foreign Exchange Control

The PRC State Council promulgated the PRC Regulation for the Foreign Exchange, or the Foreign Exchange Regulations, on January 29, 1996, which was then amended on August 5, 2008. On June 20, 1996, the People’s Bank of China further promulgated the Regulation on the Foreign Exchange Settlement, Sales and Payment, or the Settlement Regulations, which came into effect on July 1, 1996. Pursuant to the Foreign Exchange Regulation and the Settlement Regulation, foreign exchanges required for distribution of profits and payment of dividends may be purchased from designated foreign exchange banks in the PRC upon presentation of a board resolution authorizing distribution of profits or payment of dividends. The Settlement Regulations remove the previous restrictions on convertibility of foreign exchange in respect of current account items, including the distribution of dividends, interest and royalty payments, trade and service-related foreign exchange transactions, while foreign exchange transactions in respect of capital account items, such as direct investment, loan, securities investment and repatriation of investment remain subject to the approval of SAFE.

On October 21, 2005, SAFE issued the “State Administration of Foreign Exchange’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round-trip

REGULATION

Investment via Special Purpose Offshore Companies” (Hui Fa [2005] No. 75) (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (匯發[2005]75號)), or Notice No. 75, a public notice which became effective on November 1, 2005. Pursuant Notice No. 75 issued by SAFE on October 21, 2005, which came into force on November 1, 2005, PRC residents are required to register with the local SAFE branch before directly establishing or indirectly controlling any company, referred to in the notice as a “special purpose offshore company”, outside of the PRC for the purpose of capital financing with assets or equity interest in an onshore enterprise in the PRC, and to go through the modification registration procedures after completing an investment in or acquisition of any operating subsidiaries in the PRC via the special purpose offshore company, which we refer to herein as a “round-trip investment”. In addition, any change of shareholding or any other material capital alteration in such special purpose offshore company not involving a round-trip investment, such as a change in share capital or merger and acquisition, must be filed or registered within 30 days from the date of change. The relevant SAFE regulations apply retrospectively to registration of direct or indirect investments made by PRC residents in special purpose offshore companies before the Notice No.75 came into effect.

Pursuant to Notice No. 75, in the event that a PRC resident with a direct or indirect stake in a special purpose offshore company fails to make the required SAFE registration, the PRC subsidiaries of such special purpose offshore company may be prohibited from distributing their profits to their offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries, and the offshore parent’s ability to contribute additional capital or provide loans, whether using the proceeds from the Offering or otherwise, would be impaired. In addition, failure to comply with SAFE registration requirements as described above may also result in liability under PRC laws for evasion of applicable foreign exchange restrictions. Our current beneficial owners who are PRC residents are subject to SAFE notice and have duly registered or filed with the local branch of SAFE as required under the SAFE notice.

On December 2006, the People’s Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, setting forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen’s participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On March 28, 2007, SAFE promulgated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Listed Company, or the Stock Option Rules. The purpose of the Stock Option Rules is to regulate foreign exchange administration of PRC domestic individuals who participate in employee stock holding plans and stock option plans of overseas listed companies.

According to the Stock Option Rules, if a PRC domestic individual participates in any employee stock ownership plan or stock option plan of an overseas listed company, a PRC domestic qualified agent or the PRC subsidiary of such overseas listed company shall, among others things, file, on behalf of such individual, an application with SAFE to obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with stock holding or stock option exercises as PRC domestic individuals may not directly use overseas funds to purchase stock or exercise stock options. Concurrent with the filing of such application with SAFE, the PRC domestic qualified agent or the PRC subsidiary shall obtain approval from SAFE to open a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the stock purchase or option exercise, any returned principal or profits upon sales of stock, any dividends issued upon the stock and any other income or expenditures approved by SAFE. The PRC domestic qualified agent or the PRC subsidiary is also required to obtain approval from SAFE to open an overseas special foreign exchange account at an overseas trust bank with custody or stock brokerage qualifications to hold overseas funds used in connection with any stock purchase.

On August 29, 2008, SAFE promulgated “Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (Hui Zong Fa [2008] No. 142) (“國家外匯管理局綜合司關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的

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通知滙綜發[2008]142號”), or Circular 142, which provides Renminbi capital 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 shall not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its oversight over 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 altered without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Rules.

M&A Rules

On August 8, 2006, six PRC regulatory agencies, namely the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, as amended on June 22, 2009, which became effective on September 8, 2006, or the M&A Rules. According to the M&A Rules, mergers and acquisitions of domestic enterprises by foreign investors must be reviewed and approved by the MOFCOM or its local branches. Particularly, the M&A Rules require special purpose offshore companies formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

We have been advised by King & Wood, our PRC legal adviser, that because our PRC subsidiary, Hilong Group, was established as Sino-foreign joint venture before September 8, 2006, the M&A Rules do not apply to our corporate restructuring of Huashi Hailong, Reorganization and the Listing.

Dividend Distribution

Pursuant to the PRC Law on Foreign-invested Enterprises, amended on October 31, 2000, and the Rules for the Implementation of the PRC Law on Foreign-invested Enterprises, amended on April 12, 2001, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a foreign-invested enterprise is required to set aside at least 10% of their respective accumulated profits each year to fund certain reserve funds, until the accumulative amount of such fund reaches 50% of its registered capital. These wholly foreign-owned companies may also allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. Amounts allocated to these reserve funds and staff welfare and bonus funds reduce the amount distributable as cash dividends. Upon approval of the competent governmental authorities, foreign investors may utilize RMB dividends to invest or re-invest in enterprises established in China.

Export Business

According to the Foreign Trade Law, as amended on April 6, 2004, and the Record Filing and Registration of Foreign Trade Operators Procedures, promulgated by the MOFCOM on June 25, 2004, a foreign trade operator engaging in the import or export of goods or technologies must make the appropriate filings at, and registrations with, the MOFCOM or the organization designated by the MOFCOM.

Protection of Intellectual Property

PRC laws and regulations concerning the protection of intellectual property include, but are not limited to: the Patent Law of the PRC and its Implementing Regulations; the Paris Convention for the Protection of Industrial Property of the World Intellectual Property Organization; and the General Principles of the Civil Law of the PRC.

Environmental Protection

PRC laws and regulations concerning environmental protection include but are not limited to: the Environmental Protection Law of the PRC promulgated and came into effect on December 26, 1989, the Air

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Pollution Prevention Law of the PRC promulgated on April 29, 2000 and came into effect on September 1, 2000; the Water Pollution Prevention Law of the PRC amended in 2008 and its Implementing Regulations promulgated in 2000 respectively, the Rules on the Administration concerning Environmental Protection of Construction Projects promulgated and came into effect on November 29, 1998, and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects promulgated December 27, 2001 and came into effect on February 1, 2002.

Pursuant to such laws and regulations, the discharge and disposal of contaminants, toxic and hazardous materials, including a manufacturer's waste water, solid waste and waste gases, must comply with the applicable national and local standards. Enterprises which discharge contaminants must report to, and register with, the State Administration for Environmental Protection or their relevant local environmental protection authorities. Enterprises discharging contaminants in excess of the discharge limits or national and/or local standards must pay discharge fees for the treatment of the excessive discharge. A manufacturer which causes severe pollution may be ordered to take corrective actions within a certain period of time. If it fails to do so, such manufacturer may be subject to penalties, or ordered to cease operations.

Occupational Health and Safety

The Standing Committee of the National People's Congress of the PRC promulgated the Production Safety Law on June 29, 2002 to strengthen the supervision and administration of production safety, prevent and reduce safety accidents, protect the safety of life and property, and promote the development of economy. The Production Safety Law provides that enterprises engaging in production activities must comply with the provisions of the Production Safety Law and other relevant laws and regulations concerning production safety. Such enterprises are required to strengthen the administration of production safety, establish and improve the system of responsibility for production safety and ensure a safe production environment. The Production Safety Law establishes a system of attributing responsibility for production safety accidents in the PRC and sets out the requirements with which enterprises engaging in production activities must comply, including (i) designating staff to be responsible for managing production safety; (ii) providing its relevant employees of appropriate safety classes and training to ensure they possess the required knowledge and management skills on production safety; (iii) erecting appropriate safety signage on dangerous equipment and installations; and (iv) ensuring safety-related equipment comply with national or industry standards. Where an enterprise fails to comply with the provisions of the Production Safety Law, the relevant production safety supervision authority may, issue a rectification order, impose a fine, order such enterprise to cease production and operation, or revoke the relevant permits.

Standing Committee of the National People's Congress promulgated the Prevention and Treatment of Occupational Diseases on October 27, 2001, which took effect on May 1, 2002, to prevent, control and eliminate occupational damages, prevent and treat occupational diseases, and protect the health and related rights of employees. Before the establishment of enterprises which may cause occupational damages, their plant shall fulfill certain hygiene requirements. And such enterprises are also required to adopt certain administrative measures to prevent and treat occupational diseases, including (i) setting up and designating department, or organizing or equipping full-time or part-time hygiene professional staffs to be in charge of occupational diseases prevention and treatment; (ii) formulating measures to prevent and treat occupational diseases, occupational hygiene administration rules and operational procedures; (iii) setting up occupational hygiene files and employees' health files; (iv) establishing occupational factor watch and evaluation system; and (v) formulating emergency response plan of occupational diseases and accidents.

Taxation

Enterprise Income Tax

On January 1, 2008, the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC was abolished, and the Enterprise Income Tax Law of the PRC, or EIT Law, promulgated on March 16, 2007, became effective. Pursuant to the EIT Law of the PRC, the income tax rate for both domestic-invested enterprises and foreign-invested enterprises is 25%.

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On December 15, 2009, the State Administration of Taxation released the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfer by Non-PRC Resident Enterprise (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) or SAT Circular 698, retrospectively effective from January 1, 2008 to reinforce the taxation on off-market equity transfers by non-resident enterprises. Under SAT Circular 698, the PRC tax authorities have the discretion to adjust the taxable capital gains in an equity transfer, if the transfer price is deemed not to be determined on an arm's length basis between related parties. The SAT Circular 698 also requires that, if a party in an equity transfer transaction having a withholding obligation fails or is unable to perform its withholding obligation, the non-PRC resident enterprise in that transaction shall file tax declaration within seven days of the equity transfer. The SAT Circular 698 further provides that, where a non-resident foreign investor indirectly transfers equity interests in a PRC resident enterprise by disposing the equity interests in an offshore holding company, and such offshore holding company is located in a jurisdiction where (i) the effective tax rate is less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor is required to provide the tax authority in charge of that PRC resident enterprise with the relevant information within 30 days of the transfers. Moreover, if a non-resident foreign investor indirectly transfers equity interests in a PRC resident enterprise in the absence of reasonable commercial purposes and use "abusive" corporate structures to evade tax, the PRC State Tax Authority will have the power to re-examine the equity transfer and treat it as if it were a direct transfer of equity interests in a PRC resident enterprise by denying the existence of the offshore holding company.

Value-added Tax

Under the Provisional Regulation of the PRC Concerning Value-added Tax amended on November 10, 2008 and its Implementing Rules, value-added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. Value-added tax payable in PRC is at a rate of 13% or 17% (depending on the type of goods involved) and, in the case of taxable services provided, at a rate of 17%.

Business Tax

Pursuant to the "Provisional Regulations of the PRC on Business Tax" amended by the State Council on November 10, 2008 and implemented on January 1, 2009 and the "Detailed Rules for the Implementation of the Interim Regulation of the People's Republic of China on Business Tax (2008)" issued by the MOF and the SAT and effective on January 1, 2009, services in China are subject to business tax. The business tax rate is between 3% and 20% depending on the type of services provided. Sale of real properties and other improvements on the land attract a business tax at the rate of 5% of the turnover of the selling enterprise payable to the relevant local tax authorities.

KAZAKHSTAN REGULATIONS

The Kazakhstan Law on Licensing dated January 11, 2007, or the RK Licensing Law, provides for a list of activities subject to licensing requirements, violation of which may result in civil, administrative or criminal liability. Our subsidiary in Kazakhstan has obtained a licence for exploitation of mining production, which allows our subsidiary in Kazakhstan to engage in activities including drilling oil and gas wells, undergrounding and overhauling wells, dismantling equipment, and installing well lifters, after-repair testing of wells, and flushing, cementing, testing, and developing wells. Under Kazakhstan laws, the authorized government authority conducts examination of a licensee's compliance with the qualification requirements through, *inter alia*, annual reports for a reporting year which the licensee is obliged to submit by March 1 following the reporting year.

Under the Kazakhstan Law on Subsoil and Subsoil Use dated June 24, 2010, or the RK Subsoil Law, a subsoil user and its subcontractors must acquire or procure goods, work and services from Kazakhstan producers to the extent that they comply with the requirements in respect of the relevant project technical regulations of Kazakhstan, and with the standards, price and quality comparable to similar work and services provided by non-residents. The RK Subsoil Law determines Kazakhstan content "in personnel", "in goods", "in work" (i.e. services) as well as Kazakhstan "producer". The RK Subsoil Law requires subsoil users to give preference to Kazakhstan producers and personnel during the performance of subsoil use operations.

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Environmental protection in Kazakhstan is regulated primarily by the Kazakhstan Environmental Code dated January 9, 2007, or the RK Environmental Code. Depending on the nature of the industrial activity of a particular user, the Kazakhstan Ministry of Environmental Protection issues permits for environmental emissions and provides for approval of various activities. The RK Environmental Code establishes a “pay to pollute” regime administered by the relevant national and local authorities. Payment of emission fees does not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities, as well as to pay fines and compensate damage to the environment. Failure to comply with environmental requirements or cause environmental accidents may result in suspension or ban of a company’s operations, and administrative and/or civil liability as well as criminal liability imposed upon individuals responsible for such failure.

In Kazakhstan, there are a number of regulations governing health and safety. The industrial safety regulations are applicable to our subsidiary in Kazakhstan to the extent that it owns and uses some equipment at hazardous objects and is therefore subject to various technical requirements, including the obtaining of permits, certificates of conformance and insurance in respect of such objects. Our subsidiary has obtained the relevant permits under the relevant regulations. The applicable health regulations impose certain obligations upon a company to ensure health safety of employees, including mandatory insurance of civil liability. Our subsidiary in Kazakhstan has maintained mandatory insurance of civil liability of the employer for causing harm to life and health of employee during performance of labour duties.

The Kazakhstan laws relating to labor matters include the Labour Code and the Rules on Establishment of Quota, Conditions and Order of Issue of Permits to Employers for Attraction of Foreign Labour Force to the Republic of Kazakhstan. Under these regulations, all companies hiring foreign personnel must, subject to certain exceptions, obtain work permits for such employees, which are issued in accordance with annual quotas established by the Kazakhstan government authorities.

Pursuant to Kazakhstan laws, all current account operations, including capital contributions, transfers of dividends, interest and other investment income, may be made without restriction. Only certain capital account operations between residents and non-residents need to be notified to or registered with National Bank of the Republic of Kazakhstan, or the NBRK. Subject to such notification and registration requirements, capital outflows and inflows are registered and monitored for statistical purposes only, but are not restricted.

The principal taxes in Kazakhstan are corporate income tax at a rate of 20% (and 15% for a few types of income subject to withholding corporate income tax), social tax at a rate of 11% (of expenses incurred by an employer as salary (including bonuses and other forms of remuneration) and social package benefits to employees), social insurance contributions at a rate of 5% (of the expenses of an employer payable to an employee as income for the work performed) and value added tax on goods and services at a rate of 12%.

ECUADOR REGULATIONS

The principal regulation of Ecuador governing foreign investment in Ecuador is the Production Code. Under the Production Code and other Ecuadorian laws and regulations, there is no regulatory restrictions on foreign investment in oilfield service industry or the transfer of equity interest in a foreign-invested company in Ecuador.

The Hydrocarbons Law of Ecuador provides that any company engaged in businesses in respect of hydrocarbons (including oilfield service business) shall make a regulatory filing with the Hydrocarbons Direction of Ecuador after its incorporation. Except such filing, no other regulatory approvals, permits or authorizations from any government authorities of Ecuador are required for a company to operate in oilfield service industry.

Under the Monetary Regime Law of Ecuador, the official currency of Ecuador is U.S. dollar. Ecuador does not have its own currency and all the transactions, payments and obligations, shall be settled in U.S. dollars.

Under the Internal Tax Regime Law of Ecuador, income tax rate applicable to a company incorporated in Ecuador is 25%. In addition, the Tax Equity Law of Ecuador provides for a 2% tax of remittance in respect of any remittances of funds abroad, subject to a small number of exceptions.

HISTORY AND REORGANIZATION

OVERVIEW

We are a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. The following table sets forth the key milestones in our history:

- 2001 ● established Huashi Hailong
- 2002 ● entered OCTG coating services business
- 2003 ● entered coating materials development and production business
- 2005 ● established Hilong Group
 - entered oil and gas line pipe coating service business
 - entered drill pipes manufacturing business
 - Huashi Hailong obtained the certification as a qualified supplier of CNPC and Sinopec
- 2006 ● obtained Fearnley Procter NS-1 certification for our coating services
- 2008 ● entered into oilfield services business
 - completed our corporate restructuring of Huashi Hailong
- 2010 ● UMW purchased our Series A preferred shares

OUR CORPORATE HISTORY

Our Company was incorporated as an exempt company under the laws of Cayman Islands on October 15, 2008. We trace our history back to Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd, or Huashi Hailong, and Hailong International (L) Ltd., or Hailong International, two investment holding companies Mr. Zhang, our founder and Controlling Shareholder, incorporated in January 2001 and May 2003, respectively. In addition to serving as an investment holding company, Huashi Hailong also engages in trading businesses. Mr. Zhang funded the incorporation of Huashi Hailong in 2001 through funds provided by his parents. We entered the coating business in 2002, the drill pipe manufacturing business in 2005, and the oilfield services business in 2008.

Early History (2001-2006)

Since its incorporation in January 2001, Huashi Hailong has been 100% beneficially owned by Mr. Zhang, our founder and Controlling Shareholder. From 2002 to 2005, through various investments, Huashi Hailong entered into OCTG coating services, coating materials development and production, line pipe coating services and hardbanding products and services businesses.

- *OCTG coating services.* In March 2002, Huashi Hailong began a OCTG coating service business by incorporating Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., or Shanghai Tube-Cote, with two other minority shareholders. Huashi Hailong owned 74% of equity interest in Shanghai Tube-Cote upon its incorporation. In April 2004, Shanghai Tube-Cote introduced UMW Petropipe (L) Ltd. as its shareholder and as a result, our equity interest in Shanghai Tube-Cote was reduced to 51%. ⁽¹⁾ To

(1) Upon Shanghai Tube-Cote's incorporation in March 2002, the other shareholders of Shanghai Tube-Cote included ACE Tubular Technologies PTE Ltd. and Shanghai Baosheng Industrial Co., Ltd. 上海寶盛實業公司, each holding 25% and 1% of Shanghai Tube-Cote, respectively. In April 2002, Huashi Hailong acquired the 1% equity interest held by Shanghai Baosheng Industrial Co., Ltd., or Shanghai Baosheng, for RMB0.15 million, which represented the registered capital Shanghai Baosheng paid. The share transfer was conducted on an arm's length basis. In April 2004, Shanghai Tube-Cote restructured its capital structure. UMW Petropipe (L) Ltd. made a capital contribution of RMB10.4 million and as a result held 40% of the registered capital in Shanghai Tube-Cote. The consideration was determined based on the net asset value of Shanghai Tube-Cote at the time of capital contribution. As part of its shareholding restructuring, Huashi Hailong made an additional capital contribution of RMB2.01 million and ACE Tubular Technologies PTE Ltd., or ACE, reduced its investment in Shanghai Tube-Cote by RMB1.41 million. As a result, Shanghai Tube-Cote was held 51%, 40% and 9% by Huashi Hailong, UMW Petropipe (L) Ltd. and ACE, respectively. In January 2009, ACE transferred its 9% equity interest in Shanghai Tube-Cote to UMW Petropipe (L) Ltd., and our Group was not a party to this transaction. As a result of these transactions and our corporate restructuring of Huashi Hailong, Shanghai Tube-Cote was held 51% and 49% by Hilong Group and UMW Petropipe (L) Ltd., respectively. UMW Petropipe (L) Ltd. is also a shareholder of Jiangsu Tube-Cote and an affiliate of UMW China Ventures (L) Ltd., which became one of our shareholders in August 2010. Other than Shanghai Baosheng Industrial Co., Ltd.'s past shareholding in Shanghai Tube-Cote, it is an independent third party of the Group. Other than ACE's past shareholding in Shanghai Tube-Cote, Jiangsu Tube-Cote, Hilong Group and Shanghai Shine, it is an independent third party of the Group.

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further expand our capacity to provide OCTG coating services, in April 2005, through Shanghai Tube-Cote, we made a 41% investment into Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd., or Jiangsu Tube-Cote. We purchased an additional 17.18% of equity interest in Jiangsu Tube-Cote through Hailong International from another shareholder at the time on an arm's length basis and started to hold a controlling interest in Jiangsu Tube-Cote in February 2008. ⁽²⁾ In September 2006, through Shanghai Tube-Cote, we made a 45% equity investment into Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. and a 40% equity investment into CNOOC Tube-Cote Tianjin Pipe Co., Ltd., both engaging in OCTG coating service business.

- *Coating materials.* In November 2003, Huashi Hailong made a 25% investment into Shanghai Hilong Shine New Material Co., Ltd., or Shanghai Shine, a company engaging in development and production of coating materials, upon its incorporation. We purchased an additional 22% equity interest in Shanghai Shine through Huashi Hailong in August 2006 and an additional 25% equity interest through Hailong International in October 2006, in each case from other shareholders at the time on an arm's length basis. As a result of these transactions, we held 72% of equity interest in Shanghai Shine.⁽³⁾
- *Line pipe coating services.* In November 2005, Huashi Hailong began a line pipe coating service business by incorporating Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd., or Shanghai Anti-Corrosion, with four other minority shareholders. Huashi Hailong owned 63% of equity interest of Shanghai Anti-Corrosion upon its incorporation.⁽⁴⁾

(2) In April 2005, Shanghai Tube-Cote made investment into Jiangsu Tube-Cote by acquiring 41% of equity interest in Jiangsu Tube-Cote held by ACE for a total consideration of US\$1.3 million, which was determined based on the capital contribution and investments made by ACE. The share transfer was conducted on an arm's length basis. Concurrently with our investment into Jiangsu Tube-Cote, UMW Petropipe (L) Ltd. also acquired 3.6% of equity interest in Jiangsu Tube-Cote from ACE, and our Group was not a party to this transaction. After the capital contribution, Jiangsu Tube-Cote was held 41%, 33%, 22.4% and 3.6% by Shanghai Tube-Cote, Jiangsu Shuguang Group Co., Ltd. 江蘇曙光集團有限公司, ACE and UMW Petropipe (L) Ltd. In February, 2008, Hailong International acquired an additional 17.18% equity interest in Jiangsu Tube-Cote from ACE for RMB13.3 million. The consideration was determined based on parties' negotiations and the transaction was conducted on an arm's length basis. As a result, we held 41% and 17.18% in Jiangsu Tube-Cote through Shanghai Tube-Cote and Hailong International, respectively. Other than its shareholding in Jiangsu Tube-Cote, Jiangsu Shuguang Group Co., Ltd. is an independent third party of our Group.

(3) Upon Shanghai Shine's incorporation, it was held 50%, 25% and 25% by Huizhou Mingnuo Zaoqi Co., Ltd. (惠州明諾造漆有限公司), Huashi Hailong and ACE, respectively. In August 2006, Huizhou Mingnuo Zaoqi Co., Ltd., or Huizhou Mingnuo, transferred 22% and 28% of Shanghai Shine's equity interest to Huashi Hailong and Shaanxi Ante Petroleum Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司) for RMB0.8 million and RMB1.0 million, respectively. The considerations for the transfer were determined based on the net asset value of Shanghai Shine at the time of transfer and the share transfers were conducted on an arm's length basis. In October 2006, Hailong International acquired the 25% equity interest in Shanghai Shine held by ACE for a consideration of RMB0.5 million, which was determined based on parties' negotiation and the share transfer was conducted on an arm's length basis. As a result, we held 47% and 25% in Shanghai Shine through Huashi Hailong and Hailong International, respectively. Shaanxi Ante Petroleum Technology Engineering Co. Ltd. is a company owned by Junfeng Fang and his spouse, and Junfeng Fang is one of our directors and senior management team. Other than its past Shareholding in Shanghai Shine, Huizhou Mingnuo Zaoqi Co., Ltd. is an independent third party of our Group.

(4) The other then minority shareholders of Shanghai Anti-Corrosion were Shaanxi Ante Petroleum Technology Engineering Co., Ltd., Pengbin Yuan, Min Zhao and Jinbo Chen, each holding 22%, 5%, 5% and 5%, respectively, of equity interest in Shanghai Anti-Corrosion. In July 2007, we transferred 3% of equity interest in Shanghai Anti-Corrosion to Yizhuang Liu for RMB0.15 million, which was determined based on our investment in the registered capital of Shanghai Anti-Corrosion. The share transfer was conducted on an arm's length basis. As a result, our shareholding in Shanghai Anti-Corrosion reduced to 60%, with Shaanxi Ante Petroleum Technology Engineering Co., Ltd., Pengbin Yuan, Min Zhao, Jinbo Chen and Yizhuang Liu each holding 22%, 5%, 5%, 5% and 3%, respectively, of Shanghai Anti-Corrosion. Pengbin Yuan, Yizhuang Liu are members of our directors and senior management team. Min Zhao and Jinbo Chen are employees of our Group.

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- *Hardbanding.* In December 2005, Huashi Hailong began a hardbanding business by incorporating Shanghai Boteng Welding Consumables Co., Ltd., or Shanghai Boteng, with five other minority shareholders. Huashi Hailong owned 63% of Shanghai Boteng upon its incorporation. Huashi Hailong sold 28% equity interest in Shanghai Boteng in June 2006 and, as a result, became a 35% shareholder of Shanghai Boteng thereafter. We became the controlling shareholder of Shanghai Boteng in March 2008 by Hilong Group's acquisition of additional equity interest from the other shareholders on an arm's length basis.⁽⁵⁾

In January 2005, to develop our drill pipe manufacturing business, we incorporated Hilong Group of Companies Ltd., or Hilong Group, through Huashi Hailong. Hilong Group was initially established by Huashi Hailong as a joint venture with ACE Tubular Technologies PTE Ltd., or ACE, a company incorporated in Singapore, with Huashi Hailong and ACE holding 75% and 25%, respectively, of its equity interest. In 2006, before ACE's making of capital contribution into Hilong Group as required by PRC law, ACE proposed to transfer its equity interest in Hilong Group to us. As a result of parties' negotiations, in August 2006, ACE transferred its 25% equity interest in Hilong Group to Hailong International for nil consideration as ACE had not made any capital contribution at the time of transfer.

Following the establishment of Hilong Group, we began entering drill pipe manufacturing business through a series of investments:

- Hilong Drill Pipe (Wuxi) Co., Ltd., or Hilong Wuxi, was incorporated in August 2005 as a joint venture between Hailong International and two other shareholders. Hailong International held 40% of Hilong Wuxi's equity interest upon its incorporation. In October 2006, we acquired the controlling interest in Hilong Wuxi through a purchase, through Hilong Group, of the remaining 60% equity interest in Hilong Wuxi from its then shareholders on an arm's length basis.⁽⁶⁾
- Shanghai Hilong Drill Pipe Co., Ltd., or Shanghai Drill Pipe, was incorporated in November 2006 as a joint venture between Hilong Group and Hailong International, each holding 75% and 25% of its equity interest, respectively.

(5) The other then minority shareholders of Shanghai Boteng were Junfeng Fang, Yuhong Cao, Zhihai Gao, Min Zhao and Jinbo Chen, holding 10%, 8%, 10%, 5% and 4% of Shanghai Boteng, respectively. In June 2006, we transferred 28% of equity interest in Shanghai Boteng to Xi'an Nate Petroleum Technology Co., Ltd. (西安納特石油技術有限公司) for RMB0.84 million, which was determined based on Huashi Hailong's investment in the registered capital of Shanghai Boteng. The share transfer was conducted on an arm's length basis. In March 2007, Huashi Hailong transferred 3% of the equity interest in Shanghai Boteng to Baotian Zheng for a consideration of RMB90 thousand, which was determined based on Huashi Hailong's investment in the registered capital of Shanghai Boteng. The share transfer was conducted on an arm's length basis. Yuhong Cao and Junfeng Fang transferred their equity interest in Shanghai Boteng to Shaanxi Ante Petroleum Technology Engineering Co., Ltd. Our Group was not a party to these transactions. Huashi Hailong also transferred its remaining shareholding in Shanghai Boteng to Hilong Group as part of the corporate restructuring of Huashi Hailong. In August 2007, Hilong Group transferred 3% of equity interest in Shanghai Boteng to Hongming Han for a consideration of RMB90 thousand, which was determined based on Hilong Group's investment in the registered capital of Shanghai Boteng. The share transfer was conducted on an arm's length basis. In early 2008, Shanghai Boteng underwent a shareholding restructuring pursuant to which Xi'an Nate Petroleum Technology Co., Ltd. and Baotian Zheng ceased to be the shareholders of Shanghai Boteng. In particular, (i) in January 2008, Hilong Group acquired all the remaining equity interest held by the other shareholders; and (ii) in March 2008, Hilong Group transferred 18%, 15%, 6%, 4% and 3% equity interest in Shanghai Boteng to Shaanxi Ante Technology Engineering Co., Ltd., Zhihai Gao, Min Zhao, Jinbo Chen and Hongming Han. As part of the settlement plan of the shareholding restructuring, Hilong Group paid a consideration of RMB4.2 million for an additional 25% of equity interest in Shanghai Boteng held by Xi'an Nate Petroleum Technology Co., Ltd., which was determined based on parties' negotiations. The shareholding restructuring was conducted on an arm's length basis. As a result, Shanghai Boteng was held 54%, 18%, 15%, 6%, 4% and 3% by Hilong Group, Shaanxi Ante Technology Engineering Co., Ltd., Zhihai Gao, Min Zhao, Jinbo Chen and Hongming Han, respectively. Yuhong Cao and Zhihai Gao are members of our directors and senior management team. Hongming Han is an employee of our Group. Baotian Zheng is a former employee of our Group and resigned in 2008. Other than its past shareholding in Shanghai Boteng, Xi'an Nate Petroleum Technology Co., Ltd., is an independent third party of our Group.

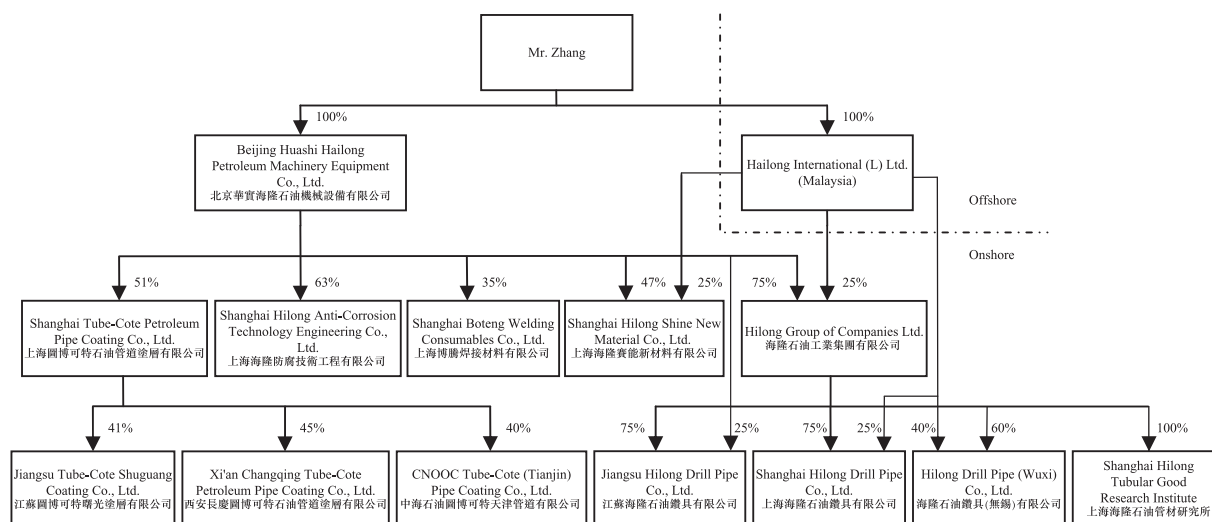
(6) Upon incorporation, Hilong Wuxi's then other shareholders included Wuxi Seamless Steel Tube Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司) and Wuxi Deqiang Investment Co., Ltd. (無錫德強創業投資有限公司), each holding 51% and 9% respectively, of Hilong Wuxi. In January 2006, Wuxi Deqiang Investment Co., Ltd. transferred its 9% equity interest in Hilong Wuxi to Wuxi Weld Technology Co., Ltd. (無錫威爾德科技有限公司). Our Group was not a party to this transaction. In October 2006, Hilong Group acquired the remaining equity interest from Wuxi Seamless Steel Tube Co., Ltd. and Wuxi Weld Technology Co., Ltd. for considerations of US\$1.95 million and RMB1.8 million, respectively. The consideration for these transactions were determined based on the net asset value of Hilong Wuxi at the time of transfer and the transactions were conducted on an arm's length basis. Other than their past shareholding in Hilong Wuxi, Wuxi Seamless Steel Tube Co., Ltd., Wuxi Deqiang Investment Co., Ltd. and Wuxi Weld Technology Co., Ltd. are independent third parties of our Group.

HISTORY AND REORGANIZATION

- Jiangsu Hilong Drill Pipe Co., Ltd., or Jiangsu Drill Pipe, was incorporated in November 2006 as a joint venture between Hilong Group and Huashi Hailong, each holding 75% and 25% of its equity interest, respectively.

In October 2006, we also incorporated Shanghai Hilong Tubular Good Research Institute to develop products and technologies related to our drill pipe products.

The following diagram illustrates our corporate structure in November 2006, immediately prior to our corporate restructuring of Huashi Hailong:



Business Expansion and Huashi Hailong Restructuring (2006-2010)

Between November 2006 and April 2007, to streamline our corporate structure and business management, we underwent the first phase of corporate restructuring of Huashi Hailong pursuant to which Huashi Hailong transferred all of its investments in Shanghai Anti-Corrosion, Shanghai Boteng and Shanghai Shine to Hilong Group. As part of this corporate restructuring, existing shareholders made an additional contribution to Hilong Group and Hilong Group was held 65% by Hailong International and 35% by Huashi Hailong. We also made investments in drill pipe manufacturing and coating businesses during this period, and started our oilfield services business in 2008:

- *Drill pipe manufacturing.* We incorporated Shanxi Tangrong Hilong Drill Tools Co., Ltd., or Shanxi Tangrong, with two minority shareholders in January 2008. Upon incorporation, Shanxi Tangrong was 26% owned by Hilong Group and 25% owned by Hailong International. Shanxi Tangrong engages in manufacturing of drill pipes and drill collars.⁽⁷⁾
- *Coating business.* We made a 45% investment through Hailong International into Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd., or Shengli Tube-Cote, in February 2007. Shengli Tube-Cote engages in OCTG coating services business.⁽⁸⁾ In addition, we incorporated Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd., or Tangrong Tube-Cote, with two minority

(7) Upon incorporation, Shanxi Tangrong's other shareholders included Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) and Shanxi Fenglei Machinery Manufacturing Co., Ltd. (山西風雷機械製造有限公司), each holding 29% and 20%, respectively, of Shanxi Tangrong. In December 2008, Shanxi Fenglei Machinery Manufacturing Co., Ltd. transferred its equity interest in Shanxi Tangrong to Shichuang Zhongheng (Beijing) Trading Co., Ltd. (世創眾衡 (北京) 貿易有限公司). Our Group was not a party to this transaction. Other than Shanxi Tangrong Automobile Component Manufacturing Group Co., Ltd.'s investments in Shanxi Tangrong and Tangrong Tube-Cote, it is an independent third party of the Group. Other than their shareholdings in Shanxi Tangrong, Shanxi Fenglei Machinery Manufacturing Co., Ltd. and Shichuang Zhongheng (Beijing) Trading Co., Ltd. are independent third parties of our Group.

(8) The other shareholder of Shengli Tube-Cote is Shengli Oilfield Wuhua Industrial Development Co., Ltd. (勝利油田物華實業發展有限公司). Other than its shareholding in Shengli Tube-Cote, Shengli Oilfield Wuhua Industrial Development Co., Ltd. is an independent third party of our Group.

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shareholders in January 2008. Upon incorporation, Tangrong Tube-Cote was 40% and 25% owned by Shanghai Tube-Cote and Hailong International, respectively. Tangrong Tube-Cote engages in OCTG coating service business.⁽⁹⁾

- *Oilfield services.* We incorporated Hilong Oil Service and Engineering Co., Ltd., or Hilong Service, with Mr. Zhang in July 2008, with Mr. Zhang holding 5% of its equity interest and us holding the remaining 95% equity interest in Hilong Service. Hilong Service engages in provision of oilfield services business.
- *Steel pipe manufacturing.* Reflecting our efforts to secure the supply of quality special steel pipes for our drill pipe production, we made a 41% investment into Nantong Hilong Steel Pipe Co., Ltd., or Nantong Steel, in April 2007. Nantong Steel engages in special steel pipes manufacturing business.⁽¹⁰⁾

In November 2006, we entered the United Arab Emirates market by incorporating Almansoori Hilong Petroleum Pipe Company, or Almansoori Hilong. Upon its incorporation, we held and continued to hold a 49% equity interest. Almansoori Hilong engages in provision of coating services and manufacturing of drill pipes.⁽¹¹⁾

In October and November 2008, we completed the second phase of our corporate restructuring of Huashi Hailong whereby Huashi Hailong transferred (i) its equity interest in Hilong Group to Hailong International, and (ii) all of its equity interests in Shanghai Tube-Cote and Jiangsu Drill Pipe to Hilong Group. Mr. Zhang also established a series of offshore holding entities during such period. Our Company was incorporated as an exempt company under the laws of Cayman Islands on October 15, 2008. Huashi Hailong also transferred the qualification certificates for the supply of drill pipes, hardbanding materials, coating materials and other related products to CNPC and Sinopec to us for nil consideration in 2008.

Our oilfield services business experienced significant growth during the period. Our subsidiary in Kazakhstan, namely Hilong Petroleum Technology & Engineering Co., Ltd, or Hilong Kazakhstan, commenced commercial operation and began generating revenue through the provision of oilfield services in 2009. Our subsidiary in Ecuador, namely Hilong Oil Service & Engineering Ecuador CIA, Ltda, or Hilong Ecuador, commenced commercial operation and began generating revenue through the provision of oilfield services in 2009. See “Business—Our Products and Services—Oilfield Services” for more details on our oilfield services operations.

(9) The other shareholders of Tangrong Tube-Cote include Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) and Houma City Longwei Engineering Manufacturing Co., Ltd. (侯馬市龍威機械製造有限公司), each owning 25% and 10%, respectively, of Tangrong Tube-Cote. Other than its shareholding in Tongrong Tube-Cote, Houma City Longwei Venture Capital Co., Ltd. is an independent third party of our Group.

(10) The other shareholders of Nantong Steel include Zhongxing Energy Equipment Co., Ltd. (中興能源裝備股份有限公司) and Shaanxi Ante Petroleum Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司), each holding 49% and 10% of Nantong Steel. Other than its shareholding in Nantong Steel, Zhongxing Energy Equipment Co., Ltd. is an independent third party of our Group.

(11) Upon incorporation, Almansoori Specialized Engineering LLC holds a 51% equity interest in Almansoori Hilong. Almansoori Specialized Engineering LLC is a regional oilfield service provider and oil and gas industry equipment producer in the Middle East. Other than its shareholding in Almansoori Hilong, Almansoori Specialized Engineering LLC is an independent third party of our Group.

HISTORY AND REORGANIZATION

- (1) Mrs. Anizar Djalil, an independent third party, holds a 5% equity interest in PT Hilong Oil Service & Engineering Indonesia as a nominee shareholder for the benefit of Hilong Oil Service Ltd.
- (2) Almansoori Specialized Engineering LLC holds 51% equity interest in Almansoori Hilong Petroleum Pipe Company.
- (3) Mr. Zhang, Ms. Zhang Shuman and Ms. Gao Xia each holds a 41%, 8% and 12% equity interest in Hilong Oil Pipe Co., Ltd. Ms. Gao Xia is the spouse of Mr. Zhang.
- (4) Ms. Gao Xia holds a 10% equity interest in Hilong Petropipe Co., Ltd.
- (5) Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) and Shichuang Zhongheng (Beijing) Trading Co., Ltd. (世創眾衡(北京)貿易有限公司) each holds a 29% and a 20% equity interest in Shanxi Tangrong Hilong Drill Tools Co., Ltd., (山西湯榮海隆鑽具有限公司) respectively.
- (6) Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司) holds a 28% equity interest in Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司)
- (7) Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司) holds a 22% equity interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) The remaining a 18% equity interest are held by four individuals, their respective interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) are as follows: Yuan Pengbin (袁鵬斌) (5%), Zhao Min (趙敏) (5%), Chen Jinbo (陳錦波) (5%) and Liu Yizhuang (劉義壯) (3%).
- (8) Mr. Zhang holds a 5% equity interest in Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司)
- (9) Zhongxing Energy Equipment Co., Ltd. (中興能源裝備股份有限公司) and Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特技術工程有限公司) each hold a 49% and 10% equity interest in Nantong Hilong Steel Pipe Co., Ltd. (南通海隆鋼管有限公司)
- (10) Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司) holds 18% equity interest in Shanghai Boteng Welding Consumable Co., Ltd. (上海博騰焊接材料有限公司) The remaining 28% equity interest are held by four individuals, their respective interest in Shanghai Boteng Welding Consumable Co., Ltd. (上海博騰焊接材料有限公司) are as follows: Gao Zhihai (高智海) (15%), Zhao Min (趙敏) (6%), Chen Jinbo (陳錦波) (4%) and Han Hongming (韓紅明) (3%).
- (11) Panjin Liaohe Oilfield Pipe & Drilling Tools Manufacturing Co., Ltd. (盤錦遼河油田派普鑽具製造有限公司) holds a 50% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. (盤錦遼河油田派普圖博可特塗層有限公司). Other than its shareholding in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd., Panjin Liaohe Oilfield Pipe & Drilling Tools Manufacturing Co., Ltd. is an independent third party of our Group.
- (12) Mr. Zhang holds a 1% equity interest in Shanghai Hilong Special Oil Pipe Co., Ltd. (上海海隆特種鋼管有限公司)
- (13) UMW Petropipe (L) Ltd. holds a 49% equity interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) Shanghai Baosheng Industrial Co., Ltd. (上海寶盛實業公司) contributed land use right of a parcel of land with a gross floor area of 50 mu as cooperative condition in consideration for a fix annual payment of RMB80,000.
- (14) Houma City Longwei Engineering Manufacturing Co., Ltd. (侯馬市龍威機械製造有限公司) and Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) each holds a 10% and 25% equity interest in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd., (湯榮圖博可特(山西)石油管道塗層有限公司) respectively.
- (15) Shengli Oilfield Wuhua Industrial Development Co., Ltd. (勝利油田物華實業發展有限公司) holds 55% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華圖博可特管道塗層有限公司)
- (16) UMW Petropipe (L) Ltd. and Jiangsu Shuguang Group Co., Ltd. (江蘇曙光集團有限公司) each holds a 8.04% and 33.78% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd., (江蘇圖博可特曙光塗層有限公司) respectively.
- (17) CNOOC Energy Development Co., Ltd. (中海油能源發展股份有限公司) holds a 60% equity interest in CNOOC Tube-Cote Tianjin Pipe Co., Ltd. (中海石油圖博可特天津管道有限公司). Other than its shareholding in CNOOC Tube-Cote Tianjin Pipe Co., Ltd., CNOOC Energy Development Co., Ltd. is an independent third party of our Group.
- (18) Qingyang Changqing Juli Industrial Co., Ltd. (慶陽長慶巨力實業有限公司) holds 55% equity interest in Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司). Other than its shareholding in Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd., Qingyang Changqing Juli Industrial Co., Ltd. is an independent third party of our Group.

UMW INVESTMENT

On August 23, 2010, we entered into an agreement for the sale of 46,700 of our Series A preferred shares, par value of HK\$0.10 per share, to UMW China Ventures (L) Ltd. for a consideration of approximately RMB167.9 million. The consideration for this transaction was paid on August 26, 2010. We applied the net proceeds from UMW's investment towards a combination of (i) consideration payments to Hailong International for various businesses transferred to us as part of our reorganization in contemplation of the Global Offering; and (ii) purchases of equipment as part of our expansion.

As part of UMW's investment in us, we granted certain customary minority protection rights to UMW, including corporate governance rights such as the right to appoint a non-executive director to our board, information rights, anti-dilution rights, pre-emptive and tag-along rights. We also granted redemption rights to UMW, pursuant to which, upon the occurrence of certain events such as the Global Offering having not occurred by June 30, 2011, UMW has the right to request us to redeem its equity interest in us for a consideration of RMB167.9 million plus interest of 20% per annum. Mr. Zhang and Hilong Group Limited granted a put option to

HISTORY AND REORGANIZATION

UMW, pursuant to which UMW may sell its equity interest in us to Mr. Zhang and/or Hilong Group Limited if we fail to redeem such equity interest. These protection rights will terminate upon the completion of the Global Offering.

In addition, we agreed with UMW that we will not offer more than 25% of our share capital in the Global Offering and the shareholding held by UMW will not be diluted to less than 3.5% of our share capital immediately after the Global Offering. We also agreed to pledge certain of our assets in favor of UMW, including our drill rigs and other oilfield services related machineries and assets. In January 2011, all Series A preferred shares held by UMW were converted into our ordinary shares on a one-to-one basis and all the pledges were released upon such conversion. Upon the completion of such conversion, UMW held 4.67% of our total issued and outstanding share capital. As part of the Global Offering, UMW has agreed to certain lock-up arrangement with respect to our ordinary shares held by it. See “Underwriting.”

In addition, we and UMW consider UMW’s investment in us to be a strategic investment. As such, as part of UMW’s investment, we and UMW agreed to actively explore opportunities to collaborate in oilfield services and coating services in the overseas markets. Currently, we and UMW collaborate to develop a trading business of drilling rigs and other oilfield equipment. We also sell oil and gas line pipe coating materials to companies invested by UMW.

UMW China Ventures (L) Ltd. is an investment company incorporated in Malaysia and is beneficially owned by UMW Holding Berhad, or UMW, a public company listed on the Bursa Malaysia Securities Berhad. UMW is a leading industrial enterprise with diverse and global interests in the automotive, equipment, manufacturing and engineering, and oil and gas industries. UMW has expanded beyond Malaysia, and currently has international presence in Singapore, Indonesia, Thailand, Myanmar, Vietnam, Papua New Guinea, Australia, Taiwan, China, India, Oman and Turkmenistan. According to UMW’s 2009 annual report, in 2009, UMW had a total revenue of RM10.7 billion (RMB23.0 billion), a profit before taxation of RM846 million (RMB1.8 billion), and a profit attributable to equity holders of the company of RM382 million (RMB822 million). As of December 31, 2009, UMW had total assets of RM8.8 billion (RMB18.9 billion).

UMW’s oil and gas division was established in 2002 to access the significant potential of this industry. UMW’s entry into the oil and gas sector has been through a broad portfolio of greenfield investments and acquisitions. It seeks to enter into strategic business alliances and expand aggressively to facilitate its development into a recognized participant in the Malaysian oil and gas industry. UMW’s oil and gas division is operated through five main businesses: manufacture of OCTG and line pipes; oil and gas exploration operations; fabrication of oil and gas structures; provision of oilfield services; and supply of oilfield products.

In addition to its investments in our Group, UMW also has a Malaysia subsidiary with investments in spiral steel pipe manufacturing businesses, of which Hailong International as a minority shareholder. During the Track Record Period, we did not have any transaction with the subsidiary. UMW does not have other material business relationship with Hailong International.

OUR REORGANIZATION

Since July 2010, for the purpose of further streamlining our onshore and offshore corporate structure in contemplation of the Global Offering, we underwent a Reorganization. As a result, Hailong International transferred to us, among other things, (i) the 100% equity interest in Hilong Group; (ii) all its equity interest in Shanghai Drill Pipe, Shanghai Shine, Shengli Tube-Cote, Shanxi Tangrong, Tangrong Tube-Cote, Hilong Wuxi, Jiangsu Tube-Cote; (iii) all its equity interest in Hilong Oil Service Ltd. and Hilong Investment Ltd., two subsidiaries incorporated in Malaysia to hold our equity interests in overseas operating subsidiaries and jointly-controlled entities; and (iv) all its equity interest in Hilong Petropipe Co., Ltd., a Canadian subsidiary engaging in oil and gas equipment trading business. As part of our Reorganization, we also acquired certain non-controlling interest and disposed certain equity interests in our group entities. In particular, these transactions included:

- *Acquisition of non-controlling interest in Hilong Petropipe Co., Ltd.* In February 2011, we acquired 10% of the equity interest in Hilong Petropipe Co., Ltd., or Hilong Petropipe, from Ms. Gao Xia,

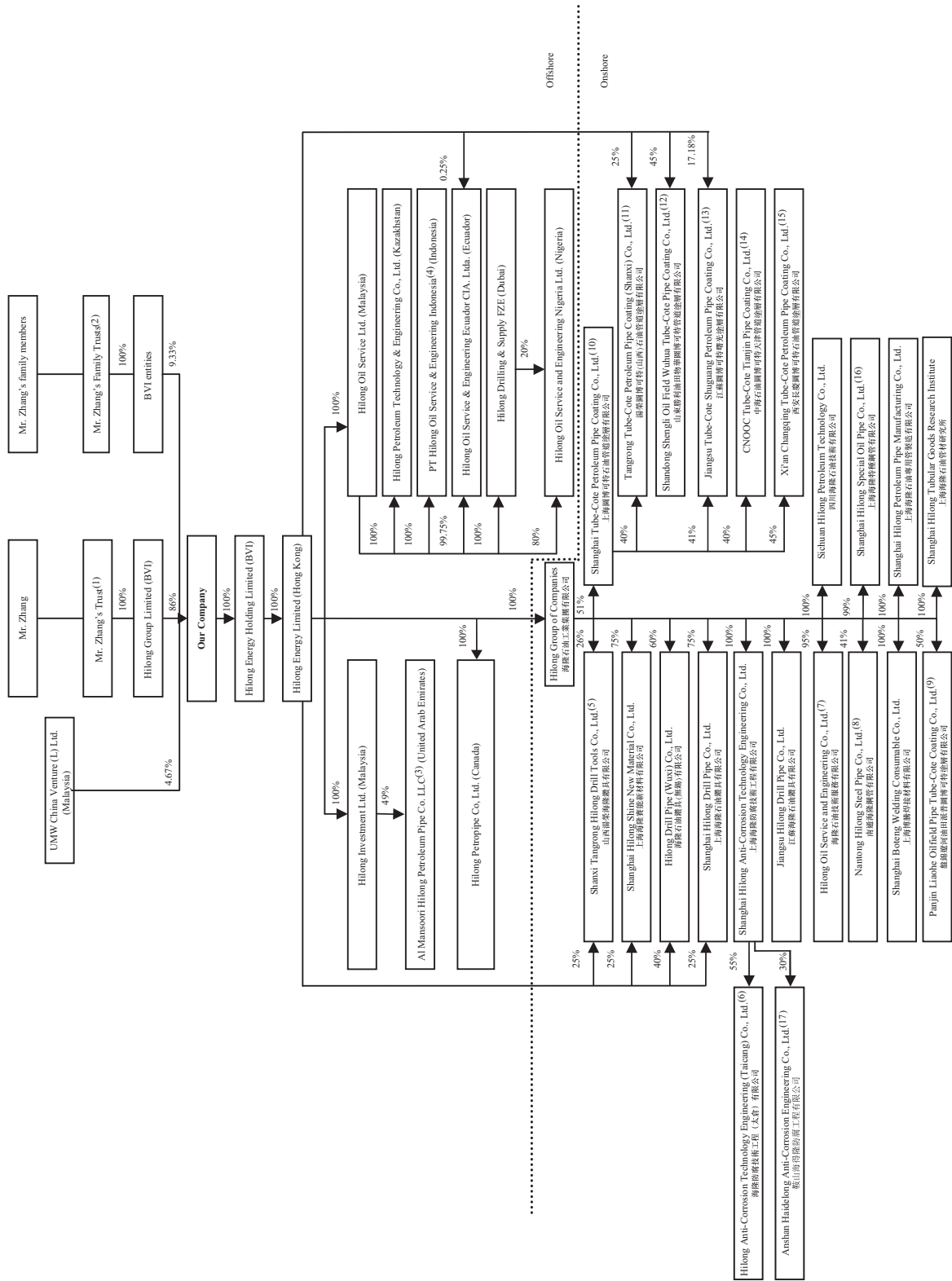
HISTORY AND REORGANIZATION

Mr. Zhang's spouse, for a consideration of US\$0.2 thousand. The consideration was determined based on Ms. Gao's capital investment in Hilong Petropipe, and the transaction was conducted on an arm's length basis.

- *Acquisition of non-controlling interest in Shanghai Boteng.* On March 2, 2011, we acquired 18%, 15%, 6%, 4% and 3% of the equity interest in Shanghai Boteng from Shaanxi Ante Technology Engineering Co., Ltd., Zhihai Gao, Min Zhao, Jinbo Chen and Hongming Han for considerations of approximately RMB10.5 million, RMB8.7 million, RMB4.2 million, RMB2.8 million and RMB3.1 million, respectively. The considerations were determined based on each party's negotiation with us and the transactions were conducted on an arm's length basis.
- *Acquisition of non-controlling interest in Shanghai Shine.* On March 2, 2011, we acquired 28% of the equity interest in Shanghai Shine from Shaanxi Ante Technology Engineering Co., Ltd. for a consideration of approximately RMB42.9 million. The consideration was determined based on parties' negotiation and the transaction was conducted on an arm's length basis.
- *Acquisition of non-controlling interest in Shanghai Anti-Corrosion.* On March 2, 2011, we acquired 22%, 5%, 5%, 5% and 3% of the equity interest in Shanghai Anti-Corrosion from Shaanxi Ante Technology Engineering Co., Ltd., Pengbin Yuan, Min Zhao, Jinbo Chen and Yizhuang Liu, for considerations of approximately RMB19.1 million, RMB4.5 million, RMB4.9 million, RMB4.9 million and RMB2.9 million, respectively. The considerations were determined based on each party's negotiation with us and the transactions were conducted on an arm's length basis.
- *Disposal of Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.* In January 2011, we disposed 75% of equity interest in Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd., or Tianjin Shuanghai, to Huashi Hailong, for a consideration of approximately RMB13.2 million. The consideration was determined based on our investment in the registered capital of Tianjin Shuanghai as Tianjin Shuanghai did not have any material operation at the time of disposal. The transaction was conducted on an arm's length basis.

HISTORY AND REORGANIZATION

The following diagram illustrates our corporate structure immediately prior to the completion of the Global Offering:

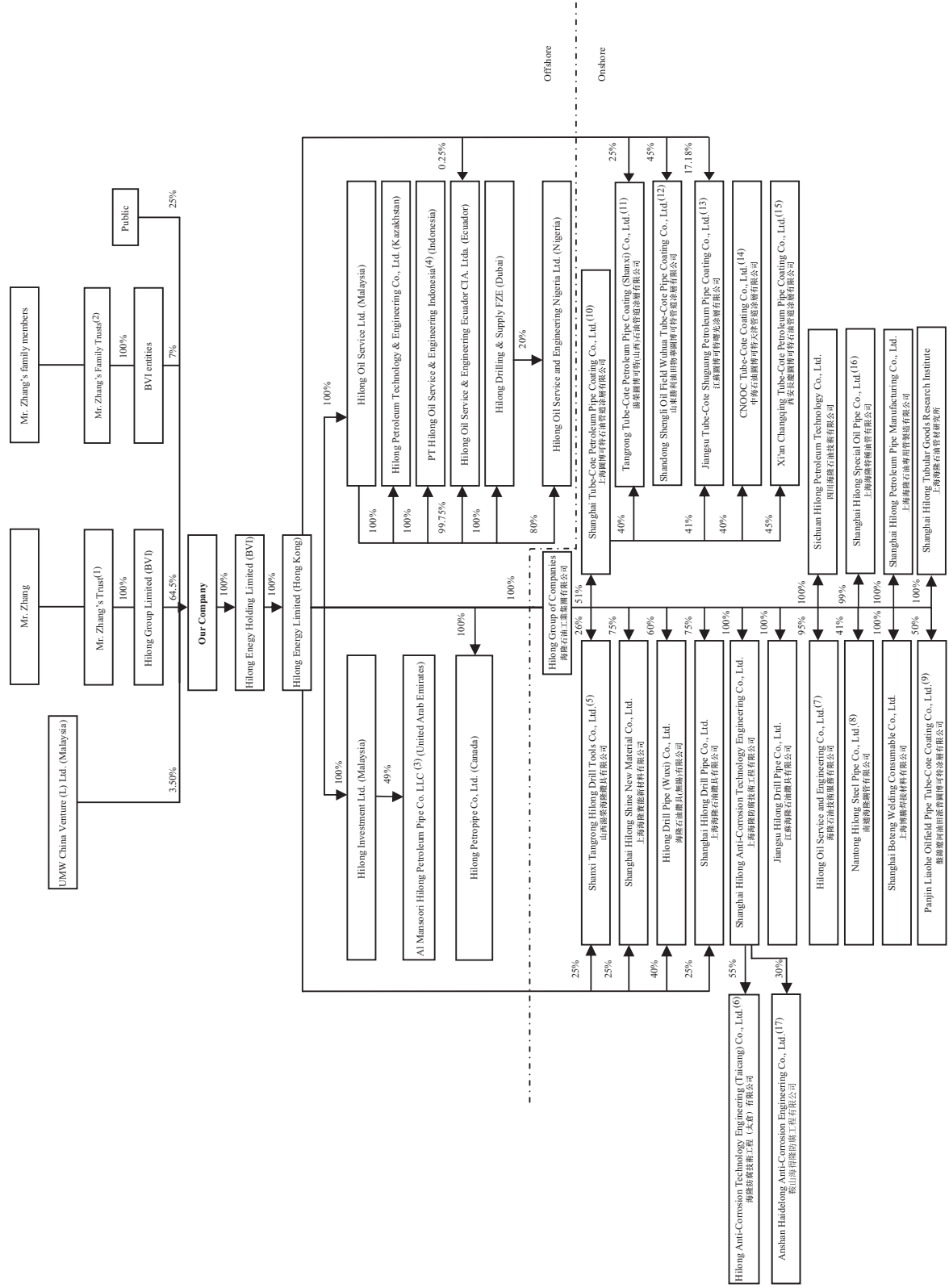


HISTORY AND REORGANIZATION

- (1) In March 2011, Mr. Zhang, one of our Controlling Shareholders, entered into certain trust arrangements. See “Appendix VI—Statutory and General Information—G. Mr. Zhang’s Trust” for more information.
- (2) In March 2011, Mr. Zhang, one of our Controlling Shareholders, entered into certain trust arrangements. See “Appendix VI—Statutory and General Information—F. Mr. Zhang’s Family Trusts” for more information.
- (3) Almansoori Specialized Engineering LLC holds 51% equity interest in Almansoori Hilong Petroleum Pipe Co., LLC.
- (4) Mrs. Anizar Djalil, an independent third party, holds 5% equity interest in PT Hilong Oil Service & Engineering Indonesia as a nominee shareholder for the benefit of Hilong Oil Service Ltd.
- (5) Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) and Shichuang Zhongheng (Beijing) Trading Co., Ltd. (世創翠衡(北京)貿易有限公司) each holds 29% and 20% equity interest in Shanxi Tangrong Hilong Drill Tools Co., Ltd., (山西湯榮海隆鑽具有限公司) respectively.
- (6) Shanghai Jiafang Steel Pipe (Group) Co., Ltd. (上海佳方鋼管(集團)有限公司) holds 45% equity interest in Hilong Anti-Corrosion Technology Engineering (Taicang) Co., Ltd. (海隆防腐技術工程(太倉)有限公司) Other than its shareholding in Hilong Anti-Corrosion Technology Engineering (Taicang) Co., Ltd., Shanghai Jiafang Steel Pipe (Group) Co., Ltd. is an independent third party of our Group.
- (7) Mr. Zhang holds 5% equity interest in Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司)
- (8) Zhongxing Energy Equipment Co., Ltd. (中興能源裝備股份有限公司) and Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司) each hold 49% and 10% equity interest in Nantong Hilong Steel Pipe Co., Ltd. (南通海隆鋼管有限公司)
- (9) Panjin Liaohe Oilfield Pipe & Drilling Tools Manufacturing Co., Ltd. (盤錦遼河油田派普鑽具製造有限公司) holds 50% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. (盤錦遼河油田派普圖博可特塗層有限公司)
- (10) UMW Petropipe (L) Ltd. holds 49% equity interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) Shanghai Baosheng Industrial Co., Ltd. (上海寶盛實業公司) contributed land use right of a parcel of land with a gross floor area of 50 mu as cooperative condition in consideration for a fix annual payment of RMB80,000.
- (11) Houma City Longwei Engineering Manufacturing Co., Ltd. (侯馬市龍威機械製造有限公司) and Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) each holds 10% and 25% equity interest in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd., (湯榮圖博可特(山西)石油管道塗層有限公司) respectively.
- (12) Shengli Oilfield Wuhua Industrial Development Co., Ltd. (勝利油田物華實業發展有限公司) holds 55% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華圖博可特管道塗層有限公司)
- (13) UMW Petropipe (L) Ltd. and Jiangsu Shuguang Group Co., Ltd. (江蘇曙光集團有限公司) each holds 8.04% and 33.78% equity interest in Jiangsu Tube-Cote Shuguang Petroleum pipe Coating Co., Ltd., (江蘇圖博可特曙光塗層有限公司) respectively.
- (14) CNOOC Energy Development Co., Ltd. (中海油能源發展股份有限公司) holds 60% equity interest in CNOOC Tube-Cote Tianjin Pipe Co., Ltd. (中海石油圖博可特天津管道有限公司).
- (15) Qingyang Changqing Juli Industrial Co., Ltd. (慶陽長慶巨力實業有限公司) holds 55% equity interest in Xi’an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司).
- (16) Mr. Zhang holds 1% equity interest in Shanghai Hilong Special Oil Pipe Co., Ltd. (上海海隆特種鋼管有限公司).
- (17) Yang Zengzhou (楊增洲), an independent third party, holds 70% equity interest in Anshan Haidelong Anti-Corrosion Engineering Co., Ltd. (鞍山海得隆防腐工程有限公司).

HISTORY AND REORGANIZATION

The following diagram illustrates our corporate structure immediately upon the completion of the Global Offering:



HISTORY AND REORGANIZATION

- (1) In March 2011, Mr. Zhang, one of our Controlling Shareholders, entered into certain trust arrangements. See “Appendix VI—Statutory and General Information—G. Mr. Zhang’s Trust” for more information.
- (2) In March 2011, Mr. Zhang, one of our Controlling Shareholders, entered into certain trust arrangements. See “Appendix VI—Statutory and General Information—F. Mr. Zhang’s Family Trusts” for more information.
- (3) Almansoori Specialized Engineering LLC holds 51% equity interest in Almansoori Hilong Petroleum Pipe Co., LLC.
- (4) Mrs. Anizar Djalil, an independent third party, holds 5% equity interest in PT Hilong Oil Service & Engineering Indonesia as a nominee shareholder for the benefit of Hilong Oil Service Ltd.
- (5) Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) and Shichuang Zhongheng (Beijing) Trading Co., Ltd. (世創翠衡(北京)貿易有限公司) each holds 29% and 20% equity interest in Shanxi Tangrong Hilong Drill Tools Co., Ltd., (山西湯榮海隆鑽具有限公司) respectively.
- (6) Shanghai Jiafang Steel Pipe (Group) Co., Ltd. (上海佳方鋼管(集團)有限公司) holds 45% equity interest in Hilong Anti-Corrosion Technology Engineering (Taicang) Co., Ltd. (海隆防腐技術工程(太倉)有限公司)
- (7) Mr. Zhang holds 5% equity interest in Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司)
- (8) Zhongxing Energy Equipment Co., Ltd. (中興能源裝備股份有限公司) and Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司) each hold 49% and 10% equity interest in Nantong Hilong Steel Pipe Co., Ltd. (南通海隆鋼管有限公司)
- (9) Panjin Liaohe Oilfield Pipe & Drilling Tools Manufacturing Co., Ltd. (盤錦遼河油田派普鑽具製造有限公司) holds 50% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. (盤錦遼河油田派普圖博可特塗層有限公司)
- (10) UMW Petropipe (L) Ltd. holds 49% equity interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) Shanghai Baosheng Industrial Co., Ltd. (上海寶盛實業公司) contributed land use right of a parcel of land with a gross floor area of 50 mu as cooperative condition in consideration for a fix annual payment of RMB80,000.
- (11) Houma City Longwei Engineering Manufacturing Co., Ltd. (侯馬市龍威機械製造有限公司) and Shanxi Tangrong Engineering Manufacturing Co., Ltd. (山西湯榮機械製造股份有限公司) each holds 10% and 25% equity interest in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd., (湯榮圖博可特(山西)石油管道塗層有限公司) respectively.
- (12) Shengli Oilfield Wuhua Industrial Development Co., Ltd. (勝利油田物華實業發展有限公司) holds 55% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華圖博可特管道塗層有限公司)
- (13) UMW Petropipe (L) Ltd. and Jiangsu Shuguang Group Co., Ltd. (江蘇曙光集團有限公司) each holds 8.04% and 33.78% equity interest in Jiangsu Tube-Cote Shuguang Petroleum pipe Coating Co., Ltd., (江蘇圖博可特曙光塗層有限公司) respectively.
- (14) CNOOC Energy Development Co., Ltd. (中海油能源發展股份有限公司) holds 60% equity interest in CNOOC Tube-Cote Coating Co., Ltd. (中海石油圖博可特天津管道有限公司).
- (15) Qingyang Changqing Juli Industrial Co., Ltd. (慶陽長慶巨力實業有限公司) holds 55% equity interest in Xi’an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司)
- (16) Mr. Zhang holds 1% equity interest in Shanghai Hilong Special Oil Pipe Co., Ltd. (上海海隆特種鋼管有限公司)
- (17) Yang Zengzhou (楊增洲), an independent third party, holds 70% equity interest in Anshan Haidelong Anti-Corrosion Engineering Co., Ltd. (鞍山海得隆防腐工程有限公司).

OVERVIEW

Hilong is a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. According to the Spears' Report, we are the market leader in the supply of drill pipes in China with a 30% market share, and the second largest supplier of drill pipes globally with a 13% market share, both based on 2009 sales. According to the Spears' Report, we are the market leader in the supply of OCTG coating materials and services, with a 67% market share in China, and the second largest globally with a 12% market share, both based on 2009 sales. We are also the largest supplier of line pipe coating materials in China with a 60% market share based on 2009 sales, according to the same source. We recently expanded into the oilfield services business with an initial focus on drilling services, which we expect to become an increasingly significant revenue stream in the future.

We have attained our leading market positions by focusing on building capabilities in key components of the drilling equipment value chain: steel pipes (which are the principal raw material in manufacturing drill pipes and are supplied from our joint venture), drill pipe products, coating materials and services as well as hardbanding materials and services. Furthermore, we believe these capabilities help us derive benefits such as better control over product quality, greater ability to expedite delivery and provision of one-stop after-sales services, which contribute to more attractive pricing and greater ability to maintain profit margin. We believe that the quality, deliverability, service and price of our products provide a unique value proposition for our clients and further contribute to our ability to maintain our leading market positions.

Our major customers include China's largest oil and gas companies such as CNPC and Sinopec. We are also a qualified supplier to many of the major international oil and gas companies, including Schlumberger, Gazprom and Weatherford. In 2008, 2009 and 2010, to our knowledge of our customers' information, sales to CNPC and its affiliates accounted for 44.4%, 28.6% and 25.5% of our revenue, respectively; sales to Sinopec and its affiliates accounted for 5.9%, 7.6% and 9.6% of our revenue, respectively; and sales to Schlumberger, Weatherford and Gazprom, directly and through distributors, in the aggregate accounted for 14.9%, 1.8% and 3.1% of our revenue, respectively. We have established overseas sales offices strategically located in some of the most active regions in the oil and gas industry, including Russia, the United Arab Emirates and Canada. As our recently established oilfield services business continues to gain momentum, we expect our profile and recognition in the international markets to continue to grow. We believe that the diversity of our customer base and the balanced mix between our PRC sales and international sales contribute to our ability to manage through industry cycles.

Our supplier qualification from the major international oil and gas companies is also testament to the quality of our products. To ensure our product quality, we seek to utilize advanced equipment in our production. Our production techniques developed in-house have been continuously refined through years of experience and enhance our product quality. As a reflection of our product and service quality, our drill pipe and hardbanding products as well as coating services have been certified to meet the Fearnley Procter NS-1 quality and inspection requirement, which is a quality standard recognized by major oil and gas companies, such as Shell, Weatherford and Schlumberger. According to the Spear's Report, we are one of only three drill pipe manufacturers in the PRC with the Fearnley Procter NS-1 certification. See "—Our Products and Services—Drill Pipes and Related Products—Drill Pipes."

We have built our research and development capabilities based on our objective of designing, developing and commercializing new products using advanced technology. In particular, our research and development activities for drill pipe products are primarily conducted through our Shanghai Hilong Tubular Goods Research Institute, which also serves as an independent testing centers for drill pipes in China. Through this institute, we have developed and commercialized a number of high-end drill-pipe products, such as sour service and high-torsion drill pipes. See "—Research and Development." Our in-house research and development team has also developed advanced coating materials, such as extreme temperature and high corrosion coating materials. Our current research and development focus includes "intelligent" drill pipes and aluminum alloy based drill pipes.

Our operating results during the Track Record Period have been affected by the recent global financial crisis and the resulting changes in oil and gas drilling activity levels. See "Risk Factors—Risks Relating to Our

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Business and Industry—The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations.” In addition, we entered the coating business in 2002, the drill pipe manufacturing business in 2005 and the oilfield services business in 2008. As a result, we have a limited operating history for potential investors to evaluate our business prospects. See “Risk Factors—Risks Relating to Our Business and Industry—It is difficult to evaluate our results of operations and future prospects due to the significant fluctuation in our historical performance and our limited operating history.” In 2008, 2009 and 2010, our revenue totaled RMB1,701.4 million, RMB1,006.7 million and RMB1,356.5 million, respectively. In 2008, 2009 and 2010, our net profit totaled RMB495.4 million, RMB110.0 million and RMB229.9 million, respectively.

COMPETITIVE STRENGTHS

We believe the following strengths of our company distinguish us from our competitors and enable us to compete effectively in the oilfield equipment and services industry.

Market leadership in key oilfield equipment products and services

We are a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. According to the Spears’ Report, we are the market leader in supplying drill pipes in China with a 30% market share, the leading foreign supplier of drill pipes in Russia with a 20% market share, and the second largest supplier of drill pipes globally with a 13% market share, all based on 2009 sales. In particular, we are the leading qualified supplier of drill pipes to CNPC and Sinopec, two of the largest oil and gas companies in China, which collectively account for over 90% of Chinese drill pipe market, according to the same source. In 2008, 2009 and 2010, to our knowledge of our customers’ information, sales to CNPC and its affiliates accounted for 44.4%, 28.6% and 25.5% of our revenue, respectively; and sales to Sinopec and its affiliates accounted for 5.9%, 7.6% and 9.6% of our revenue, respectively. Also within our drill pipes and related products segment, we are a major participant in hardbanding in China, which is a key component in drill-pipe manufacturing.

In addition, we are a leading PRC-based supplier of coating materials and services for line pipes and OCTG products. The quality of the coating materials and services is critical to optimizing the lifespan of the oilfield equipment. Coating provides protection against corrosion and mechanical failure caused by harsh underground geological environments. We entered the coating business in 2002. Through the development of proprietary coating formulae and production techniques, we have become the market leader in the supply of OCTG coating materials and services, with a 67% market share in China, and the second largest globally with a 12% market share, both based on 2009 sales, according to the Spears’ Report. We are also the largest supplier of line pipe coating materials in China with a 60% market share based on 2009 sales, according to the same source. Our line pipe coating business has helped us reduce fluctuations in our operating results as a result of changes in drilling activity levels.

Established relationships with major international oil and gas companies supported by proven product quality

In addition to our leading market positions at the leading PRC oil and gas companies, we have increasingly qualified as suppliers to many major international oil and gas companies, including Weatherford, Gazprom and Schlumberger. We have established overseas sales offices strategically located in some of the most active regions in the oil and gas industry, including Russia, the United Arab Emirates and Canada. As a result of our efforts, international sales as a percentage of our total revenue amounted to 38.5%, 15.8% and 42.6% in 2008, 2009 and 2010, respectively. In particular, sales to Schlumberger, Weatherford and Gazprom, directly and through distributors, in the aggregate accounted for 14.9%, 1.8% and 3.1% of our revenue, respectively, during the same period. The decline in international sales as a percentage of total revenue in 2009 was primarily attributable to the impact of the global financial crisis. As our recently established oilfield services business continues to gain momentum, we expect our profile and recognition in the international markets to continue to grow. We believe that our established customer base in the PRC, coupled with a growing international presence, will contribute to increasing diversification of our revenue streams, and as a result, enhance our ability to manage through industry cycles.

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Our supplier qualification from major international oil and gas companies is testament to the quality of our products. We are among a highly select number of companies in the PRC to have drill pipe products, hardbanding materials and coating services certified to meet the Fearnley Procter NS-1 quality and inspection requirement, which is a quality standard recognized by major oil and gas companies, such as Shell, Weatherford and Schlumberger. To ensure our product quality, we seek to use advanced equipment. For instance, our welding machines are purchased from Manufacturing Technology, Inc. in the United States; and our 30-channel ultrasonic automatic inspection machine was purchased from GE Inspection Technologies. Our production techniques developed in-house have been continuously refined through years of experience and enhance our product quality. For example, our proprietary drill pipe upsetting technique helps us ensure that the internal surface of the drill pipe is thickened evenly and smoothly, thereby reducing likelihood of breakdown during the drilling process.

Significant benefits derived from a vertically integrated business model

We have attained our leading market positions by focusing on building capabilities in key components of the drilling equipment value chain:

- steel pipes, the principal raw material in manufacturing drill pipes, are increasingly supplied from Nantong Hilong Steel Pipe Co., Ltd., our associate in which we hold a 41% interest;
- drill pipe products are developed and manufactured in-house;
- coating materials, which require proprietary know-how, are developed and manufactured in-house, and applied through in-house coating services; and
- hardbanding materials and services, which is a key component in the drill-pipe manufacturing process, are manufactured and processed in-house.

As a result of these capabilities, we believe that we are able to derive the following key benefits:

- ability to deliver a wide spectrum of drill pipes that will have incorporated coating and hardbanding based on specific requirements from our customers;
- more attractive pricing and greater ability to maintain and improve our profit margin by capturing value along the value chain;
- better control over the quality of our products through in-house manufacturing;
- greater ability to expedite and prioritize delivery through management of production schedules; and
- greater ability to provide “one-stop shop” after-sales services to customers.

Our experience, capabilities and market positions in drill pipe products position us to expand into oilfield drilling services, which is a key area in the next phase of our growth strategy and is expected to drive sales further for our drill pipe products.

Innovation-driven research and development capabilities

Our research and development capabilities have been built based on our objective of designing, developing and commercializing new products based on advanced technologies. In particular, our research and development activities for drill pipe products are primarily conducted through our Shanghai Hilong Tubular Goods Research Institute, which also serves as an independent testing centers for drill pipes in China. Through this institute, we have developed and commercialized a number of high-end drill-pipe products, such as sour service and high-torsion drill pipes. See “—Research and Development.” Our in-house research and development team has also developed advanced coating materials, such as extreme temperature and high corrosion coating materials. Our

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current research and development focus includes aluminum alloy based drill pipes which can be operated at depths greater than 6,000 meters, and “intelligent” drill pipes. Aluminum alloy based drill pipes are significantly lighter than steel drill pipes, which help reduce the overall burden on the drilling rig, facilitating drilling to greater depth, and are highly resistant to sour corrosion. “Intelligent” drill pipes are capable of collecting and transmitting underground drilling information back to the control system, which enables the drilling crew to promptly adjust the drilling process in accordance with specific underground conditions.

Our dedicated research and development team, with 61 members as of December 31, 2010, has developed a series of proprietary technology and drill pipe products based on 37 patents as well as a full suite of chemical formulas for coating materials. Senior members of this team consist of industry veterans. For example, Mr. Yuan Pengbin (袁鹏斌), the chief of our Shanghai Hilong Tubular Goods Research Institute, has been involved in various projects sponsored by National Innovation Fund and participated in the development of intelligent drill pipe. Mr. Gao Zhihai (高智海), the vice-chief of our Shanghai Hilong Tubular Goods Research Institute, is a senior engineer who has been involved in various oil and gas pipe related research and development projects and has obtained three patents. Mr. Fang Junfeng (方军锋) has been involved in various research and development projects in connection with the coating and anticorrosion of oil pipes and developed a number of our coating material products.

Experienced management team with a proven track record

We are led by a management team with a track record of successfully expanding existing businesses and penetrating new segments along the value chain. In particular, Mr. Zhang, our founder, chief executive officer and chairman of our board, has 20 years of experience in the oil and gas equipment industry, and is responsible for the development and implementation of our growth strategy and the overall operations of our company. The remaining members of our management team also have strong technical backgrounds and in-depth experience in their respective sectors, with an average of 18 years of experience in the relevant fields. We believe that their extensive experience and in-depth knowledge of the oilfield equipment and services industry will continue to contribute to our future growth.

BUSINESS STRATEGY

Our long-term objective is to become a leading integrated global oilfield equipment and service provider focusing on high-end products and services. We intend to achieve this objective by implementing a business strategy with the following key aspects:

Continue to focus on higher-end products in existing product categories

We intend to continue to develop and commercialize new and advanced drill pipe and coating products to increase revenue from higher-end products. To this end, we plan to focus on the following types of products:

- *High-end drill pipes.* We expect to commercialize, by 2012, a number of high-end drill pipes that are capable of operating at greater depth and more complex geological environments, including S165 high torsion-resistance drill pipes series, SS120 sour service drill pipes series and intelligent drill pipes;
- *New materials.* We are developing new materials for drill pipes, such as aluminum alloy, which are significantly lighter than steel drill pipes, which help reduce the overall burden on the drilling rig, and are highly resistant to corrosion; we expect to commercialize aluminum alloy drill pipe products by 2012;
- *High-performance coating.* We are also focusing on the development of high performance coating materials that operate under severe conditions, such as extreme temperature, pressure and highly corrosive environments, and more advanced coating techniques to enhance environmental-friendliness; and
- *New coating materials.* We are developing coating material products for oil refinery pipelines. We expect the market for these products to be significant, and we believe that our expansion into these products represents a natural extension of our current capabilities and product portfolio.

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Further expand into drilling and other oilfield services areas

We believe that oilfield services will be a key growth area in the next phase of our expansion. Our expansion into this area represents a natural extension along the drilling products and services value chain, and enables us to drive sales of drilling pipes and related products and enhance our ability to manage the cost of drilling services. In addition, drilling services provides a natural platform to collect first-hand data on the performance of our drill pipes and related products and coating materials, which enhances our ability to drive innovation and quality improvement efforts. We intend to expand into oilfield services by implementing the following initiatives:

- *Expand drilling services capacity.* We plan to increase capacity for drilling services through (i) purchases of additional drilling rigs, (ii) increase in hiring of employees, and (iii) strengthening of our global presence in the oilfield services segment.
- *Upgrade drilling capabilities.* We plan to develop capabilities to operate at greater depths and in more complex geological environments.
- *Develop comprehensive service capabilities.* As our drilling services capabilities mature, we intend to expand our services offering into well completion services, production services and field services to become a “one-stop shop” oilfield service provider for customers.

The following table sets forth the number of our existing drilling rigs as of the Latest Practicable Date, our planned rig count after the Global Offering, the respective year of realization and the planned capital expenditure.

	<u>Existing rigs count</u>	<u>Planned rig count</u>	<u>Year of realization</u>	<u>Planned capital expenditure</u>
650HP	1	1	N/A	N/A
750HP	2	2	N/A	N/A
1500HP	2	4	2011–2012	RMB100 million
2000HP	3	7	2011–2013	RMB270 million

Solidify leadership in the PRC market through capacity upgrades and vertical integration

We will seek to maintain and strengthen our domestic market leadership positions in drill pipes and related products and coating materials and services. In this effort, we plan to focus on the following:

- *Upgrade drill pipe capacity.* We plan to upgrade and expand our existing drill pipe production capacity, with a focus on capacity for high-end products, including drill pipes with larger outside diameter, sour service and high-torsion drill pipes, as well drill pipes featuring new materials such as aluminum alloy.
- *Upgrade coating capacity.* We also plan to upgrade coating materials manufacturing and coating services capacity for higher-end products, such as extreme temperature and high-corrosion coating materials.
- *Continue vertical integration.* In our coating materials and services business, we are actively seeking opportunities to vertically integrate into raw material supply through the acquisitions of technologies in manufacturing processes of key ingredients such as resin and chemical initiators, which will help us in our product development efforts and enhance our ability to manage product quality and cost efficiency.

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The following table sets forth, by product and service, our current production capacity, our planned annual capacity after the Global Offering, the respective year of realization and the planned capital expenditure.

	<u>2010 annual actual capacity</u>	<u>Planned annual capacity</u>	<u>Year of realization</u>	<u>Planned capital expenditure</u>
Drill pipe	40,600 tons	40,600 tons	N/A	N/A
Drill pipe coating materials	1,000 tons	2,000 tons	2012	RMB11 million
Line pipe coating materials	20,760 tons	28,000 tons	2012	RMB14 million
Drill pipe coating services	2.15 million meters	2.6 million meters	2011	RMB54 million
Line pipe coating services	3.1 million sq. meters	4.8 million sq. meters	2011	RMB42 million

Expand international footprint at strategic locations

We believe that international sales will represent the key growth driver for drill pipes and coating materials and services. Accordingly, we are seeking opportunities to expand into the following regions:

- *Sales offices.* We currently have overseas sales offices in Russia, Kazakhstan, the United States, Canada, Ecuador and United Arab Emirates, and plan to set up additional overseas sales offices in regions such as South America and North Africa, which are in closer proximity to some of our key end-customers, thereby increasing our exposure to these international oil and gas companies and enabling us to provide better after-sales support to these customers.
- *Drill pipe manufacturing plants.* We currently have a joint venture drill pipe manufacturing facility in Abu Dhabi, which recently commenced operation. We intend to construct additional plants in strategic overseas locations, including in Russia and Central Asia, to capture a greater share of this market.
- *Coating services plants.* We plan to build new coating services plants in closer proximity to drilling pipe manufacturers and end-customers in order to expand the adoption of our coating materials and services abroad, and have identified regions in North America, Russia, Central Asia and North Africa as potential markets.

Actively seek strategic acquisitions and alliances

We intend to actively seek acquisition and alliance opportunities along our value chain that enable us to gain access to new technology and customers and expand our production capacity. To this end, we are seeking to leverage our relationship with UMW to further promote the use of our products and services on UMW's oilfield projects, although no agreements or letters of intent have been entered into to date. In addition, we are actively exploring opportunities to enter into strategic relationships that are expected to significantly increase our oilfield services presence in Kazakhstan. We believe that the capturing of these and other opportunities will build on our strengths and enhance our market competitiveness.

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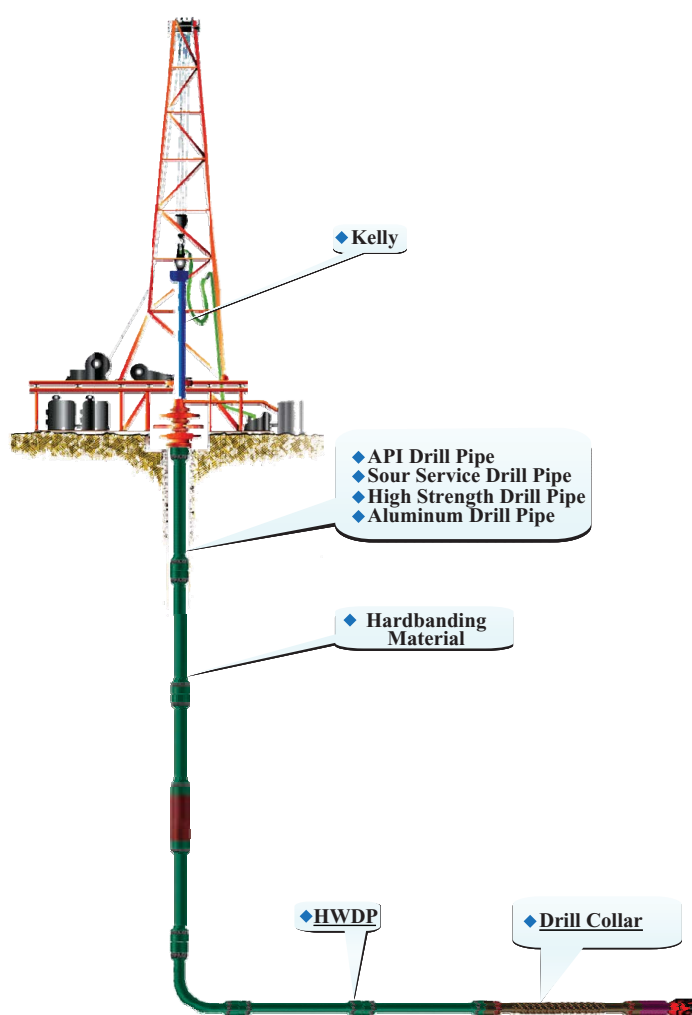
OUR PRODUCTS AND SERVICES

We are a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. The following table sets forth our historical revenue by business segment for the period indicated:

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Drill pipes and related products	1,261,262	74.1	518,586	51.5	713,068	52.6
Coating materials and services	415,934	24.4	435,026	43.2	371,856	27.4
Oilfield services	24,184	1.5	53,044	5.3	271,538	20.0
Total revenue	<u>1,701,380</u>	<u>100.0</u>	<u>1,006,656</u>	<u>100.0</u>	<u>1,356,462</u>	<u>100.0</u>

Drill Pipes and Related Products

The following diagram illustrates the positions of our drill pipes and drill pipe related products within a drilling rig:



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Our drill pipes and related products offered under this segment primarily consist of drill pipes, hardbanding, equipment and other related products. The following table sets the components of our revenue for our drill pipes and related products segment for the period indicated:

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Drill pipes	1,205,940	95.6	414,637	80.0	633,797	88.9
Hardbanding	13,684	1.1	13,730	2.6	25,263	3.5
Equipment	18,006	1.4	34,093	6.6	970	0.1
Others	23,632	1.9	56,126	10.8	53,038	7.5
Total segment revenue	1,261,262	100.0	518,586	100.0	713,068	100.0

Drill Pipes

We are the market leader in the supply of drill pipes in China, with a 30% market share based on 2009 sales, according to the Spears' Report. Drill pipe is a hollow, thick-walled, steel piping used on drilling rigs to facilitate the drilling process. As it functions as the connection between the drilling rig surface equipment and the bottom hole assembly, including the drill bit, the drill pipe needs to support its own weight to depths that often exceed one mile down into the earth's crust. Generally, for an oil well of 4,000 meters in depth, drill pipes would consist of approximately 90% of the length of the drilling rig. The drill pipe is a key drilling equipment in raising, lowering or rotating the bottom hole assembly during the drilling process, and is often designed to withstand severe external and internal pressure as well as significant forces of distortion, bending and vibration. The drill pipe also carries drilling fluid in its metal tube component from the drill bit back up the annulus, and is designed to withstand extremely corrosive environments, such as highly acidic or alkaline fluids.

Our drill pipe products are manufactured through a vertically integrated production process. A significant and increasing portion of the steel pipes required for our production is supplied by Nantong Hilong Steel Pipe Co., Ltd., our associate in which we hold a 41% interest, thereby further contributing to our ability to manage our cost structure and ensuring the quality of our products. Furthermore, our drill pipe products are coated with coating materials we developed in-house, and hardbanded using welding wires manufactured in-house. We have also developed a proprietary drill pipe internal upsetting technology to reduce down time during the drilling process.

Our drill pipe products are supplied to the major oil and gas companies in PRC, including CNPC and Sinopec. We are also a qualified supplier to many of the well-recognized international oil and gas companies such as Schlumberger, Weatherford and Gazprom. In particular, we are the leading qualified supplier of drill pipes to CNPC and Sinopec, two of the largest oil and gas companies in China, which collectively account for over 90% of Chinese drill pipe market, according to the Spears' Report. In 2008, 2009 and 2010, to our knowledge of our customers' information, sales to CNPC and its affiliates accounted for 44.4%, 28.6% and 25.5% of our revenue, respectively; sales to Sinopec and its affiliates accounted for 5.9%, 7.6% and 9.6% of our revenue, respectively; and sales to Schlumberger, Weatherford and Gazprom, directly and through distributors, in the aggregate accounted for 14.9%, 1.8% and 3.1% of our revenue, respectively.

We are one of only three drill pipe manufacturers in the PRC with Fearnley Procter NS-1 certification, according to the same source. Fearnley Procter's approval for its NS-1 certification generally requires several months to complete a process that consists of several stages, including preliminary review of an audit questionnaire and supporting documents, on-site facility audits by Fearnley Procter's engineers, corrections of non-conformance detected during the audit, approval by each member of the NS-1 technical review committee as well as a majority of the NS-1 technical review panel. See "Risk Factors—Risks Relating to Our Business and Industry—Loss of or failure to renew the API Monogram, NS-1 certifications or other licenses certifying that our products meet benchmark quality standards could materially and adversely affect our business."

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In 2008 and 2009 and 2010, we have sold 39,021 tonnes, 15,275 tonnes and 25,019 tonnes of drill pipes, respectively.

We offer a wide range of drill pipe products to meet the demands of our customers. Our portfolio of drill pipe products can be largely categorized into (i) API drill pipes and (ii) non-API drill pipes.

API Drill Pipes

We offer a full range of drill pipe products based on the industry specifications of API. Our products cover all sizes and steel grades under API specifications. Our API drill pipes have an outside diameter ranging from 2.375 inches to 6.625 inches, and are manufactured in E, X, G and S grade steel. In addition, our API drill pipe product offering includes heavy weight drill pipes, or HWDP, which is a type of drill pipe with a thicker metal tube wall and longer collar. Compared to other drill pipes, this type of drill pipe is longer and has higher tensile strength. Our HWDP products are also offered under a broad range of sizes, from 3.5 inches to 6.625 inches in outside diameter.

Non-API Drill Pipes

In addition to API drill pipes, we have successfully developed a number of non-API drill pipe products, including sour service drill pipes, double-shoulder drill pipes, low-temperature drill pipes and high torque-resistant drill pipes. In addition to meeting API standards, non-API products are made with qualifications or specifications developed to meet customers' special needs, such as higher strength, higher corrosion resistance or premium connectors. Non-API products are generally made to a higher standard than API products, and therefore more stringent technical standards and complex manufacturing techniques are required.

- *Sour service drill pipe*, or SSDP, is a type of drill pipe with capability of resistance to hydrogen sulfide stress corrosion to facilitate the oil and gas drilling activities in sulfur-rich terrains. This type of drill pipe has been developed based on a combination of proprietary technologies, including hydrogen sulfide resistant steel, special heat treatment and hydrogen sulfide resistant coating, and is manufactured using imported special steel with high purity and low sulfur and phosphorous components. SSDPs are suitable for special drilling process under sulfuric condition and unbalancing environment. Our series of sour service drill pipes, namely HL95SS and HL105SS, cover all specifications ranging from 2 3/8 to 6 5/8 inches.
- *Double-shoulder drill pipe*, or DSDP, is a type of drill pipe with two tool joints on each side of the pipe. It provides 20% to 50% higher torsional yield strength as compared to API drill pipes. Its reduced outer diameter and increased inner diameter makes it suitable for horizontal drill wells, wells with significant depth, smaller diameter wells or wells with sulfuric conditions.
- *Low-temperature drill pipe*, or LTDP, is a type of drill pipe with capability to perform under extreme low temperature to facilitate oil and gas drilling activity in low temperature regions. This type of drill pipe is produced using low-carbon steel alloy with low sulfur, phosphorous and nonmetallic components and treated with a special heat treatment that involves improved heating and spray quenching devices and a more stringent control over the treatment process.
- *High torque-resistant drill pipe*, or HTDP, is a type of drill pipe with specially designed tool joints which help to enhance the torque resistance of the drill pipe. It provides 65% higher torsional yield strength as compared to API drill pipes. It is suitable for horizontal drill wells, wells with significant depth or wells with sulfuric conditions.

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The following table sets forth our historical revenue from our API drill pipes and non-API drill pipes for the period indicated:

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
API drill pipes	1,108,094	91.9	353,708	85.3	529,655	83.6
Non-API drill pipes	97,846	8.1	60,929	14.7	104,142	16.4
Total drill pipe revenue	1,205,940	100.0	414,637	100.0	633,797	100.0

Revenue derived from sales of API drill pipes as a percentage of total drill pipe revenue decreased during the Track Record Period, which was associated with an increasing trend of non-API drill pipe sales percentages during the same period. Such trend reflected a combination of (i) our increasing focus on development and marketing of non-API drill pipe products, which are generally made to a higher standard than API products and are generally sold at a higher price compared to API products; and (ii) the increasing customers' demand for non-API drill pipes with higher strength, higher corrosion resistance or premium connectors, as a result of the increasing development of non-conventional oil and gas reserves needing premium oil and gas production equipment operating in harsh environment.

Hardbanding

We manufacture hardbanding materials and services for drill pipes to enhance their wear-resistance and reduce friction between drill pipes and casings. Hardbanding materials are welding wires, which are solid, soft steel wires used for welding onto the tool joint of a drill pipe to enhance its wear performance. When the steel wires solidify after being welded onto the tool joint, a process which is known as hardbanding, they leave a raised, hard surface above the tool joint that reduces the wear and tear of the tool joint during the drilling operation thereby prolonging the service life of the drill pipe. Hardbanding materials also serve as a protective layer between drill pipes and casings, reducing the friction between the two types of pipes during the drilling process.

Our hardbanding products primarily consist of two models, BoTn 1000 and BoTn 3000, for both of which we have obtained Fearnley Procter NS-1 certification. We have designed these two models of hardbanding products with different levels of wear resistance and friction reduction:

- *BoTn 3000.* Our BoTn 3000 hardbanding materials are chrome-free and are designed for well-balanced wear resistance and friction reduction. They offer a high level of hardness which enhances the protection provided for drill pipes. They also have high friction-reduction which reduces friction between the drill pipe and the casing and effectively reduces the wear of the casing string and drilling string.
- *BoTn 1000.* Our BoTn 1000 hardbanding materials are designed primarily to reduce friction between drill pipes and casing. They provide relatively lower wear resistance for drill pipes and higher protection to casing as compared to our BoTn 3000 series. They are also crack-resistant with no visible cracks after being welded onto the surface of the drill pipes.

Equipment

We sell coating services equipment designed and manufactured in-house to our associates and jointly controlled entities. These coating services equipments offer an integrated design, which, through a continuous flow of pipes through the entire coating process, significantly improves efficiency and prevents air and dust from mixing into the coating material during the coating process.

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Others

We sell a variety of other products used in the oil and gas industry to our customers and affiliates, such as casing and drill collars, either manufactured in-house or purchased from third parties. In addition, we provide a number of services, including technology support services, warehousing and heat treatment services, to our associates and jointly controlled entities.

Coating Materials and Services

Our coating business consists of the development, manufacturing and sale of coating materials as well as providing coating services on (i) oil and gas line pipes; and (ii) OCTG (which includes drill pipes as well as tubing and casing):

- *Oil and gas line pipes.* Oil and gas line pipe coating is primarily designed to help prevent corrosion from open-air or underground environment by providing a protective cover that separates the line pipe from soil particles and water. We sell oil and gas line pipe coating materials manufactured in-house to third parties, as well as, occasionally, provide coating services on these oil and gas line pipes.
- *Drill pipes.* Drill pipe coating helps prevent corrosion of the drill pipe by forming a rugged shield to isolate the steel from corrosive oilfield fluids such as carbon dioxide, hydrogen sulfide and brine. We provide drill pipe coating services using in-house manufactured coating materials to third party manufacturers.
- *Tubing and casing.* Tubing and casing coating helps prevent corrosion from oilfield fluids and increases the oil flow rate through line pipes by decreasing or eliminating scale build-up, which can reduce or block oil flow in producing oil wells. The smooth inner surfaces of coated tubing often increase the fluid through-put on certain high-rate oil and gas wells by reducing friction and turbulence. We provide tubing and casing coating services to third party manufacturers using in-house manufactured coating materials and coating materials sourced from third party suppliers.

In addition to external sales of coating materials and services, we also engage in intra-group sales through the provision of coating materials and services on in-house manufactured drill pipes.

The following table sets forth the components of our revenue from our coating materials and services segment for the period indicated:

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)					
Oil and gas line pipe coating	217,728	52.3	334,675	77.0	242,707	65.3
Drill pipe coating	192,461	46.3	80,618	18.5	78,740	21.2
Tubing and casing coating	5,745	1.4	19,733	4.5	50,409	13.5
Total segment revenue	415,934	100.0	435,026	100.0	371,856	100.0

Oil and Gas Line Pipe Coating

We are the largest supplier of oil and gas line pipe coating materials in China with a 60% market share based on 2009 sales, according to the Spears' Report. We manufacture and sell corrosion control external coating materials and provide coating services for oil and gas line pipes. We have developed various types of special anticorrosion coating materials that are resistant to antiseptic, acid and alkali, and are stable under high temperature, which facilitate the improvement of hydraulic efficiency, reduce wear and tear and prevent corrosion of oil and gas line pipes and other steel pipes and structures.

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Demand for our oil and gas line pipe coating materials has increased significantly in recent years. In 2008, 2009 and 2010, we sold 11,973 tonnes, 17,102 tonnes and 12,699 tonnes of coating materials for oil and gas line pipes, respectively.

We provide coating services for oil and gas line pipes primarily using our coating materials manufactured in-house, and, occasionally at our customers' request, coating materials manufactured by third parties. In 2008, 2009 and 2010, we coated 1.16 million square meters, 2.9 million square meters and 2.4 million square meters of oil and gas line pipes, respectively.

Drill Pipe Coating

We are the market leader in the supply of OCTG (including drill pipe as well as tubing and casing) coating materials and services, with a 67% market share in China, and the second largest globally with a 12% market share, both based on 2009 revenue, according to the Spears' Report. Our capabilities in the drill pipe coating business cover the entire value chain, from research and development to manufacturing of coating materials, to provision of coating services as well as design and development of coating equipment. Our drill pipe coating materials have been developed based on our proprietary know-how. Our coating equipment is primarily designed and manufactured in-house, and we have established an integrated quality control system to oversee the coating process and ensure coating quality. As a reflection of our coating quality, our Shanghai Tube-Cote coating plant has received the Fearnley Procter NS-1 certification for its coating services.

We have established coating plants at major oilfields and other strategic locations, including Shanghai, Jiangsu, Shandong, Shanxi, Shaanxi, Liaoning and Tianjin, to meet customers' demand for faster services. A number of coating plants has been established as joint ventures with our customers in the oil and gas industry. See “—Associates and Jointly Controlled Entities”.

In 2008, 2009 and 2010, we coated 2.3 million meters, 1.4 million meters and 2.4 million meters of drill pipe, respectively.

Tubing and Casing Coating

We manufacture and sell coating materials and provide coating services for tubing and casing. We have developed various types of anticorrosion coating materials that facilitate the improvement of hydraulic efficiency, reduce pile-up of debris in the tubing casing and improve resistance to abrasion and corrosion. In addition to sales of coating materials, we also provide coating services for tubing and casing.

Oilfield Services

Capitalizing on our experiences and capabilities in coating and drill pipe manufacturing, we have expanded into the oilfield services business in 2008, currently focusing on the overseas markets. Our services currently primarily consist of drilling services and engineering services. Our drilling capabilities include directional drilling, horizontal drilling and unbalanced drilling. We also offer other oil and gas well services, such as cementing, coring and well testing. We own a variety of onshore drilling rigs ranging from 650 horsepower to 2,000 horsepower, which can conduct drilling under various geological conditions, such as mountain, highland, desert and wetland. Clients of our oilfield services generally include large scale oilfields and well-recognized local oil and gas companies.

Our oilfield services contracts can be largely categorized as day-rate contracts and turnkey contracts. Turnkey contracts typically provide for a lump sum payment on a well-by-well basis for drilling and drilling-related services for a specified number of wells regardless of actual costs incurred. Day-rate contracts specify fixed day rates for the operating equipment and service crew and are generally entered for a specified period of time. See “—Customers—Major Contractual Terms—Oilfield Services”.

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The following table sets forth all of our current and historical material oilfield service projects under turnkey contracts:

<u>Clients</u>	<u>Rig Type</u>	<u>Location of Project</u>	<u>Contracted Wells</u>	<u>Total Drilling Area</u>	<u>Date of Actual/Expected Commencement</u>	<u>Date of Actual/Expected Completion</u>	<u>Contract Value</u>	<u>Scope of Services</u>
Xi Bu-Kyzylorda Engineering Drilling Company Ltd ("PetroChina")	ZJ-30C 750hp	Kazakhstan	3 wells	3,995 meters	August 2009	September 2009	USD220,000	Drilling, casing running
KOR Oil Company ("KOR")	ZJ-30C 750hp	Kazakhstan	18 wells	21,248 meters	October 2009	November 2010	USD8,500,000	Drilling, mud, coring, cementing, casing running, road and well site construction
	ZJ-30C 750hp	Kazakhstan	7 wells	9,040 meters	April 2010	July 2010	USD3,500,000	Drilling, mud, coring, cementing, casing running and well site construction
Zhalgiztobe Oil Ltd. ("ZTM")	ZJ-30C 750hp	Kazakhstan	8 wells	3,850 meters	July 2009	October 2009	USD1,760,000	Drilling, mud
	ZJ-20 650hp	Kazakhstan	8 wells	3,602 meters	August 2009	October 2009	USD1,760,000	engineering, coring, cementing, casing running and well site construction
KMK Oil JSC ("KMK")	ZJ-30C 750hp	Kazakhstan	10 wells	3,500 meters	September 2010	January 2011	USD2,900,000	Drilling, mud engineering, coring, cementing, casing running and well site construction

The oilfield services we provided for the KOR, ZTM and KMK projects include oil well drilling, mud engineering, coring, cementing, casing running and well site infrastructure construction which demonstrated our strong capability to complete turnkey drilling projects. For our KOR project, we also successfully completed the drilling of an oil well with a depth of 1,850 meters within a month which significantly distinguished us from the local drilling service providers who generally need more than two months to drill an oil well with similar depth.

The following table sets forth all of our material oilfield service projects under day-rate contracts:

<u>Client</u>	<u>Rig Type</u>	<u>Location of Project</u>	<u>Contracted Period</u>	<u>Date of Actual/Expected Commencement</u>	<u>Date of Actual/Expected Completion</u>	<u>Contract Value</u>	<u>Scope of Services</u>
Andes Petroleum Ecuador Limited	XJ-650 650hp	Ecuador	3 years	June 2009	March 2012	USD6,984,500	Oil well workover
	Swabbing Unit	Ecuador	1 year	December 2010	December 2011	USD774,000	Oil swabbing
	ZJ-70D 2000hp SCR	Ecuador	1 year	January 2011	December 2012	USD9,735,000	Drilling
Talisman Energy	ZJ-70D 2000hp SCR	Iraq	3 wells	January 2011	December 2011	USD8,390,000	Drilling

The oil well workover project for Andes Petroleum Ecuador Limited involves the application of dual tubing for oil production in a single oil well, which is the first dual tubing project in the region. We worked closely with

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Schlumberger and Weatherford and improved our rig equipment to meet the requirement for dual tubing operation. The improvement work was completed in 2010 and we do not expect to incur any additional material costs in this regard. We successfully completed the oil well workover and help to increase the daily output of such oil well from 1,000 barrels per day to 2,000 barrels per day.

Our oilfield services business experienced significant growth during the Track Record Period. Our subsidiary in Ecuador, Hilong Oil Service & Engineering Ecuador CIA, Ltda, or Hilong Ecuador, commenced commercial operation and began generating revenue through the provision of oilfield services in 2009. In 2009 and 2010, revenue generated by Hilong Ecuador amounted to RMB11.1 million and RMB168.4 million, representing 1.1% and 12.4% of our total revenue, respectively. The significant increase in such revenue derived from our Ecuador operations reflected the sale of tubing and casing products purchased from third parties to an oilfield services client in Ecuador in 2010. Our subsidiary in Kazakhstan, Hilong Petroleum Technology & Engineering Co., Ltd, or Hilong Kazakhstan, commenced commercial operation and began generating revenue through the provision of oilfield services in 2009. In 2009 and 2010, revenue generated by Hilong Kazakhstan amounted to RMB36.6 million and RMB91.9 million, representing 3.6% and 6.8% of our total revenue, respectively. As of the Latest Practicable Date, we had 27 employees in Ecuador and 25 employees in Kazakhstan.

Our oilfield services business is susceptible to severe weather conditions. Although historically, we have not suffered from severe weather conditions that could have a material and adverse impact upon our oilfield services business and operations, there can be no assurance that we would not be materially and adversely affected by severe weather conditions in the future. See “Risk Factors—Risks Relating to Our Business and Industry—Severe weather conditions may affect our operations.”

ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Drill Pipe Manufacturing

Almansoori Hilong Petroleum Pipe Company

In 2006, we entered into a joint venture agreement with Almansoori Specialized Engineering LLC and established Almansoori Hilong Petroleum Pipe Company in Abu Dhabi, United Arab Emirates. Almansoori Specialized Engineering LLC is a regional oilfield service provider and oil and gas industry equipment producer in the Middle East. It holds 51% equity interest in the joint venture while we hold the remaining 49% equity interest in the joint venture through Hilong Investment Ltd, our Malaysian investment holding company. We recognize Almansoori Hilong Petroleum Pipe Company as a jointly controlled entity. The joint venture mainly provides coating services and manufactures API drill pipes which are targeted to be sold in Middle East and European markets.

The following summarizes the key terms of the joint venture agreement:

- *Preemptive rights.* Pursuant to the joint venture agreement, both parties to the joint venture have the preemptive right in the event of any increase to the share capital of the joint venture. However, the equity interest of Almansoori Specialized Engineering LLC in the joint venture may not be reduced to lower than 51%.
- *Board of directors.* The board of directors of the joint venture consists of five members, three of which, including the chairman, are appointed by Almansoori Specialized Engineering LLC and the remaining two are appointed by us.
- *Shareholders' resolution.* The resolution of the shareholders' meeting is generally valid if approved by shareholders representing no less than 75% of the equity interest of the joint venture. Certain material corporate matters, including amendment to the joint venture agreement, change in share capital of the joint venture, making loans or granting guarantees on behalf of the joint venture, employment or

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discharge of the general manager and establishment of subsidiaries or branch offices of the joint venture, require unanimous approval by all the parties to the joint venture.

- *Operational arrangements.* Hilong Group of Companies is required to source and supply raw materials to the joint venture. The joint venture has the exclusive right to manufacture and supply drill pipes in the United Arab Emirates, countries of the Arab Gulf Countries Council, the Middle East and North Africa. During the term of the joint venture, none of the parties to the joint venture may engage in any business that competes with the joint venture in United Arab Emirates, countries of the Arab Gulf Countries Council, the Middle East or North Africa.

Drill Pipe Coating Services and Others

To facilitate customers' demand, we have established various drill pipe coating service joint ventures with our major customers in PRC, in close proximity to the oilfields where customers operate and the major ports of PRC. In addition, Nantong Hilong Steel Pipe Co., Ltd., our associate in which we hold a 41% equity interest, processes and provides steel pipes to us. The following table set forth the key information on these joint ventures engaged in these services (some of which are treated as associates or jointly controlled entity for accounting purposes):

Name	Date of Establishment	Location	Term of Joint Venture	Directors	Equity Interest Structure		Treated as (for accounting purpose)
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	March 2002	Shanghai	50 years	Seven (four to be appointed by us and three to be appointed by UMW Petropipe (L) Ltd.)	Our Group	51%	Subsidiary
					UMW Petropipe (L) Ltd.	49%	
Tangrong Tube-Cote (Shanxi) Petroleum Pipe Coating Co., Ltd.	January 2008	Shanxi	20 years	Five (three to be appointed by us, and the remaining two shall be appointed by each of the other third party joint venture parties)	Our Group	65%	Subsidiary
					Shanxi Tangrong Automobile Component Manufacturing Group Co., Ltd.	25%	
					Houma City Longwei Venture Capital Co., Ltd.	10%	
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd	September 2010	Jiangsu	30 years	Five (to be appointed by the shareholders meeting)	Our Group	55%	Subsidiary
					Shanghai Jiafang Steel Pipe (Group) Co., Ltd.	45%	
Jiangsu Tube-Cote Shuguang Coating Co., Ltd.	October 2003	Jiangsu	20 years	Seven (four to be appointed by us, two to be appointed by Jiangsu Shuguang Group Co., Ltd. and one to be appointed by UMW Petropipe (L) Ltd.	Our Group	58.18%	Subsidiary
					Jiangsu Shuguang Group Co., Ltd.	33.78%	
					UMW Petropipe (L) Ltd.	8.04%	

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Name	Date of Establishment	Location	Term of Joint Venture	Directors	Equity Interest Structure	Treated as (for accounting purpose)
Shandong Shengli Oilfield Wuhua Tube-Cote Pipe Coating Co., Ltd.	February 2007	Shandong	20 years	Five (three to be appointed by Shengli Oilfield Wuhua Industrial Development Co., Ltd. and two to be appointed by us)	Our Group Shengli Oilfield Wuhua Industrial Development Co., Ltd.	45% 55% Associate
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	November 2004	Shaanxi	20 years	Five (two to be appointed by us and three to be appointed by Qingyang Changqing Juli Industrial Co., Ltd.)	Our Group Qingyang Changqing Juli Industrial Co., Ltd.	45% 55% Associate
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	September 2006	Tianjin	10 years	Five (three to be appointed by CNOOC Energy Development Co., Ltd. and two to be appointed by us)	Our Group CNOOC Energy Development Co., Ltd.	40% 60% Associate
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	January 2009	Liaoning	15 years	Five (three to be appointed by us and two to be appointed by Panjin Liaohe Oilfield Pipe & Drilling Tools Manufacturing Co., Ltd.)	Our Group Panjin Liaohe Oilfield Pipe & Drilling Tools Manufacturing Co., Ltd.	50% 50% Jointly Controlled entity
Anshan Haidelong Anti-Corrosion Engineering Co., Ltd.	November 2010	Liaoning	10 years	One (to be appointed by the shareholders meeting)	Our Group Yang Zengzhou	30% 70% Associate
Nantong Hilong Steel Pipe Co., Ltd.	April 2007	Jiangsu	20 years	Five (to be appointed by the shareholders meeting)	Our Group Zhongxing Energy Equipment Co., Ltd. Shaanxi Ante Technology Engineering Co., Ltd.	41% 49% 10% Associate

SALES AND MARKETING

We sell our products in China principally through direct sales by our sales and marketing team, which as of December 31, 2010, consists of 18 employees. Members of our sales and marketing team in PRC are located in our headquarters in Shanghai as well as six regional distribution centers nationwide designed to cover, among others, 20 major oilfields in China. The following map illustrates the geographical distribution of our sales presence in PRC:



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We currently have overseas sales offices in six countries, including Russia, Kazakhstan, the United States, Canada, Ecuador and United Arab Emirates. The following map illustrates the geographical distribution of our sales offices in the international markets:



Members of our sales and marketing team are primarily responsible for collecting customer feedback and market information, bidding or negotiating orders, identifying business opportunities, promoting our products and pre-sales marketing in their respective geographic regions. In particular, we believe that our pre-sales marketing efforts are critical to increasing customer loyalty. Accordingly, our sales and marketing team often work with our research and development teams to determine both the anticipated demand for a new product and whether the product can be developed with our current production facilities, technologies and resources. We also occasionally sell our products through sales agents on a transaction-by-transaction basis. Historically, revenue derived from sales through sales agents represented 3.7%, 0.5% and 5.3% of our total revenue in 2008, 2009 and 2010.

We are highly dependent upon the transportation systems we use to deliver our products, which include train, truck and ocean shipping. Most of our production facilities are located in Shanghai city and Jiangsu and Shanxi provinces with convenient access to local railway and highway networks linking to our domestic customers in the PRC market as well as major ports for international transportation to our international customers. Our sales in the PRC are generally delivered by truck and rail, and our international sales are generally delivered by a combination of ocean shipping and road transportation. During the Track Record Period, there had been no instance of transportation disruption or costs increases which could have a material and adverse impact upon our business and operations. However, there can be no assurance that we would not suffer from any material transportation interruption or costs increases. See “Risk Factors—Risks Relating to Our Business and Industry—If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our cost of sales could increase.”

In the PRC market, we generally require one to four months after the date of sales contract to make delivery of our drill pipes, and transportation cost is normally borne by the customers. For the international market, a longer period of time is generally required before delivery, and either we or the customers bear the transportation cost depending on the terms of the sales contract. Insurance cost arrangements with our international customers, and occasionally with our domestic customers, vary depending on our practice with individual customers.

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In 2008, 2009 and 2010, our transportation expenses amounted to RMB43.3 million, RMB44.9 million and RMB48.9 million, respectively, representing 2.5%, 4.5% and 3.6%, respectively, of our revenue during the same period.

CUSTOMERS

Our customers primarily include a number of major PRC and international oil and gas companies as well as sales distributors engaged by our end users. We maintain well-established relationships with CNPC and Sinopec, which are the largest two PRC oil and gas companies. In 2008, 2009 and 2010, to our knowledge of customer information, CNPC and its affiliates accounted for 44.4%, 28.6% and 25.5% of our revenue, respectively; and Sinopec and its affiliates accounted for 5.9%, 7.6% and 9.6% of our revenue, respectively. For our coating materials and services segment, our major customers also include BaoSteel, which to our knowledge of customer information accounted for 2.6%, 17.0% and 11.4% of our total revenue in 2008, 2009 and 2010, respectively. For our international sales, we are also a qualified supplier to many of the major international national oil and gas companies, such as Schlumberger, Weatherford and Gazprom. In 2008, 2009 and 2010, to our knowledge of customer information, sales to Schlumberger, Weatherford and Gazprom, directly and through distributors, in the aggregate accounted for 14.9%, 1.8% and 3.1% of our revenue, respectively.

We primarily conduct direct sales to end users for our drill pipes and related products segment in China, as well as for our coating materials and services segment and oilfield services segment. For our international sales of drill pipes and related products, in particular in Russia and Central Asia region, Middle East region and North America region, to our knowledge of customer information, some of our customers are distributors purchasing our products for the purposes of resale to end users. For example, some of our customers in Russia and Central Asia are distributors engaged by Gazprom. During the Track Record Period, we have not experienced any material deterioration in or termination of business relationship with our major customers, or any legal proceeding or material dispute with our major customers arising from the performance of obligations under sales contracts or settlement of outstanding balances of trade receivables, which would have a material adverse impact upon our financial condition and results of operations. Historically, we have been able to renew our certifications as a supplier of CNPC, Sinopec or other key customers, as necessary. However, there can be no assurance that renewal for such certifications will continue to be successful. See “Risk Factors—Risks Relating to Our Business and Industry—We may fail to renew our certification as a supplier of CNPC, Sinopec, or our other key customers.”

In 2008, 2009 and 2010, our five largest customers accounted for approximately 35.8%, 27.2% and 32.7% of our revenue, respectively. Revenue attributable to our largest customer during the Track Record Period represented 14.9%, 15.0% and 10.3% of our revenue for the same period, respectively. These amounts are calculated based on the contract party. Accordingly, the affiliates of, among others, CNPC and Sinopec that are different contract parties are treated as different customers. If calculated based on customer group including affiliated companies under the same control or ownership, to our knowledge of customer information, in 2008, 2009 and 2010, (i) our five largest customer groups accounted for approximately 74.8%, 59.2% and 57.5% of our revenue, respectively, and (ii) revenue attributable to our largest customer group represented 44.4%, 28.6% and 25.5% of our revenue, respectively. During the Track Record Period, save as otherwise disclosed in this subsection, none of our Directors, senior management members, associates or shareholders holding more than 5% of our issued share capital had any interest in any of our five largest customers for the Track Record Period.

Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., or Huashi Hailong, an entity controlled by our Controlling Shareholder, Mr. Zhang, held the qualification certificates for the supply of drill pipes, hardbanding materials, coating materials and other related products to CNPC and Sinopec since 2005. In 2008, we completed our corporate restructuring of Huashi Hailong and Huashi Hailong transferred these certificates to us. See “History and Reorganization.” Accordingly, we historically provided these products to Huashi Hailong which in turn sold these products to our end customers. For accounting purposes, the end customers of these sales through Huashi Hailong were deemed as our customers. We recognized revenue derived from such sales based on the consideration our end customers paid to Huashi Hailong, and the 2%-3% mark-up Huashi Hailong charged based on our sales price was recognized as our selling and marketing expenses.

In addition, in 2009, we began to procure steel pipes from our associate, Nantong Hilong Steel Pipe Co., Ltd., or Nantong Steel, in which we held 41% equity interest. To ensure the quality of the steel pipes procured, as

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part of our arrangement with Nantong Steel, we would purchase raw steel from third parties to be processed by Nantong Steel into steel pipes. From 2009 to early 2010, we sold the raw steel that we purchased from third parties to Nantong Steel and purchased finished steel pipes from it. In early 2010, as the purchase of raw steel from us placed significant strain on the liquidity and cash flow of Nantong Steel, we modified our arrangement from a sale-and-purchase relationship to a provision of outsourced processing services by Nantong Steel. As a result of our strategic investment in Nantong Steel, we have been able to obtain outsourced processing services on steel pipes at prices lower than the prevailing market price, and enjoy priority in processing capacity to meet our demand. Such strategic investment was negotiated on an arm's length basis.

The following table sets forth our revenue by geographical location of our customer for the periods indicated:

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
China	1,045,955	61.5	847,583	84.2	778,903	57.4
South America	—	—	14,238	1.4	193,195	14.3
Russia and Central Asia	484,431	28.5	116,648	11.6	209,186	15.4
Middle East	58,800	3.5	10,052	1.0	99,876	7.4
North America	52,949	3.1	4,607	0.5	57,606	4.2
Others	59,245	3.5	13,528	1.3	17,696	1.3
Total revenue	1,701,380	100.0	1,006,656	100.0	1,356,462	100.0

Historically, a majority of our revenue was derived from the PRC market. We primarily derive revenue from the PRC market through direct sales of drill pipes and related products and coating materials to end users as well as provision of coating services in China. For our international market, we primarily derive revenue from sales of drill pipe and related products and provision of oilfield services. We started to focus on developing international market and entered oilfield services business in 2008, and our revenue derived from the international market increased significantly and represented 38.5% of our total revenue in 2008.

We primarily sell drill pipes and related products to Russia and Central Asia region, North America region and Middle East region. Some of our customers in these regions are distributors engaged by end users for the purposes of sourcing such products. We aim to continue to expand our oilfield services business globally and intend to continue to enter new markets where we see sound business opportunities. In 2010, our revenue derived from South America increased significantly, resulting from our sale of tubing and casing products purchased from third parties to an oilfield services client in Ecuador as part of our oilfield services engagement. For a more detailed discussion, see "Financial Information—Description of Selected Income Statements Line Items—Revenue—Revenue by Geographic Market."

Major Contractual Terms

Drill Pipes and Related Products

The following summarizes the major contractual terms of our typical drill pipe sales contracts:

- Pricing.* Our drill pipe contracts for domestic sales are generally produced through invitational bidding and subsequent price negotiations. As is customary in our industry, a bidding process is used by oil well project operators to solicit bid proposals from qualified suppliers. Qualified suppliers submit non-binding bid proposals to indicate their available production capacity and price levels. After the contract is awarded, the prices for drill pipes are finalized through negotiations among the successful bidders and the project operator. Generally, prices of our drill pipe products sold to CNPC and Sinopec and their respective affiliates are subject to pricing guidelines adopted by CNPC or Sinopec each year. These prices may be re-negotiated during the course of the year due to significant fluctuations in steel prices or other factors. However, parties enter into these price re-negotiations based on their business relationships rather than their contractual rights. Export prices for our drill pipes are generally set

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according to the market prices in the relevant markets, subject to fluctuations depending on local market conditions, exchange rates and other factors. We seek to price our products to reflect the expected fluctuations in raw material prices to the extent possible and to pass increases in raw material prices to our customers through re-negotiating with our customers or seeking to enter into sales contracts with price-adjustment mechanism based on our business relationship with them. However, there can be no assurance that we could precisely estimate the raw material prices increase or effectively pass on such increase to our customers. Historically, our business and results of operations have been affected by the fluctuations in raw material prices. See “Financial Information—Factors Affecting Our Results of Operations—Raw Material Prices” and “Risk Factors—Risks Relating to Our Business and Industry—We may experience shortages or price increases of raw materials and components.”

- *Payment terms and credit policy.* Our payment and credit terms may vary significantly depending on a variety of factors, including our prior dealings with the customer, volume of sales, current financial position of the customer and the prevailing market conditions. Under our contracts, customers generally agree to pay 90% to 95% of the contract price in lump sum or by installments within nine months upon acceptance of our products and the balance as warranty retention money. We will review our credit policy as necessary based on market conditions and customer’s credit profile.
- *Delivery.* In the PRC market, we generally require one to four months after the date of sales contract to make delivery of our drill pipes. For the international market, a longer period of time is generally required before delivery. Delivery and insurance cost arrangements vary depending on our practice with individual customers.
- *Warranty.* We generally enter into a warranty arrangement with the customer in the sales contract. The warranty arrangement provides that the customer may withhold a portion of the purchase price, normally 5% to 10% of the total purchase price, as retention money which will only be released after the expiration of a warranty period. This retention money will be paid to us only if our product does not have any major quality problem during the warranty period. Our warranty period varies depending on our practice with individual customers, which are generally extended for one year to 18 months after delivery or acceptance of our products by our customers or after our products have been installed or put in operation by our customers. During the Track Record Period, we did not incur any material warranty expenses or experience any product return in connection with our sales of drill pipes and related products.

Coating Materials and Services

Under our coating material sales contracts, our customers generally make payments in installments depending on our arrangement with individual customers. We are generally required to make delivery of coating materials upon written notice by our customers. We also enter into a warranty arrangement with the customer for certain sales contracts, which provides that the customer may withhold 10% of the purchase price as retention money which will only be released after the expiration of the warranty period which normally extends for one year after the delivery and acceptance of the coating materials. As of December 31, 2008, 2009 and 2010, the balance of our retention money amounted to RMB1.1 million, RMB2.8 million and RMB7.0 million, respectively.

For our coating services for drill pipes, our customers generally agree to pay the contract price in a single lump sum within ten days to 120 days upon the delivery and acceptance of the coated drill pipes. We also entered into a master coating service arrangement with Baosteel, pursuant to which we will provide drill pipe coating services to Baosteel, and Baosteel will make monthly payments for the drill pipes processed by us based on pre-agreed prices for our coating service.

For our coating service contracts for oil and gas line pipes, our payment and credit terms may vary significantly depending on our arrangement with individual customer. Under these contracts, customers paying in one lump sum payment generally agree to pay the contract price within 40 days upon the delivery and acceptance of the coated oil and gas line pipes; customers paying in installments, such as CNPC and Sinopec, generally

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agree to pay up to 90% to 95% of the contract price in installments and the remaining portion as warranty retention money. Our warranty arrangement with CNPC and Sinopec provides that CNPC and Sinopec may withhold the balance of the contract price as retention money which will only be released after expiration of the warranty period which normally extends for one year after the delivery and acceptance of the coated oil and gas line pipes.

Oilfield Services

Our oilfield services contract can be largely categorized as follows:

- *Day-rate contracts.* We enter into day-rate contracts with our customers to provide drilling and other oilfield service equipment and service crew for fixed day rates. The customers generally agree to make monthly payment of the contract price. Our day-rate contract with Andes Petroleum Ecuador Ltd. for oil swabbing equipment requires us to provide a performance bank guarantee in favor of the customer for an amount equaling 10% of the total contract price, which will be released one month after the termination of such day-rate contract.
- *Turnkey contracts.* We enter into turnkey contracts with our customers to provide drilling and drilling related services for a lump sum payment calculated on a well-by-well basis for a specified number of wells. Our payment and credit terms may vary significantly depending on our arrangement with each individual customer. Under our turnkey contracts, customers paying a lump sum payment generally agree to pay the contract price upon the delivery and acceptance of each completed oil well; customers paying in installments generally agree to pay from 30% to 50% upon commencement of drilling and the remainder upon the delivery and acceptance of each completed oil well.

RAW MATERIALS AND SUPPLIERS

The principal raw materials we use for our drill pipe manufacturing operations are steel based components such as steel pipes. We source the raw materials used in our drill pipe manufacturing primarily within PRC. Historically, we relied significantly on third party steel pipe suppliers to supply us with steel pipes for our production needs. In 2009, Nantong Hilong Steel Pipe Co., Ltd., or Nantong Steel, our associate in which we hold a 41% equity interest, began processing steel raw material supplied by us into steel pipes. The production of steel pipes by Nantong Steel allows us to better manage our cost structure, control the quality of our principal raw materials and streamline our in-house production process to shorten the production cycle of our drill pipes. The principal raw materials for our coating materials are polyethylene and various other types of petrochemicals the prices of which are subject to the fluctuation of oil price. We generally source these petrochemicals raw materials within PRC.

In 2008, 2009 and 2010, purchases from our largest five suppliers accounted for 61.8%, 39.1% and 29.5% of our total raw material purchases respectively. During the same period, our largest supplier accounted for approximately 32.4%, 10.3% and 11.4% of our total raw material purchases respectively. None of our Directors, senior management members, associates or shareholders holding more than 5% of our issued share capital had any interest in any of our five largest suppliers for the Track Record Period. We have not experienced any material shortage of raw materials or components, and currently we anticipate no material difficulty in procuring raw materials and components from alternative suppliers.

RESEARCH AND DEVELOPMENT

Our technological expertise and in-depth industry knowledge enable us to develop new products that have practical applications. Our research and development teams work closely with our sales and marketing personnel to determine both the anticipated demand for a new product and whether the product can be developed with our current production facilities, technologies and resources.

We established our own research institute in Shanghai to develop products and technologies related to our drill pipe products. The institute currently has approximately 40 research professionals consisting of academics from the Chinese Academy of Engineering, senior engineers and experts in the oil and gas line pipes industry.

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Major research subjects of the institute include development of new drill pipe products, oil and gas line pipe coating technologies, coating materials and hardbanding materials. The institute successfully developed a variety of new products and technologies, including sour services drill pipes, double-shoulder tool joint and drill pipe upsetting technologies. In addition, to the institute, our in-house research and development team has also developed advanced coating materials, such as extreme temperature and high corrosion coating materials, as well as high-strength fusion epoxy powder coating technology.

We are in the process of developing new drill pipe products, including aluminum alloy drill pipes and intelligent drill pipes:

- *Aluminum alloy drill pipes.* This type of drill pipes includes steel drill pipes with internal and external aluminum alloy upsetting, as well as drill pipes and heavy weight drill pipes made entirely of aluminum alloy. Aluminum alloy drill pipes are significantly lighter than steel drill pipes, which help reduce the overall burden on the drilling rig and prolong the service life of drill pipes. They are also highly resistant to sour corrosion, which facilitates drilling to greater depths, offshore oil wells and wells with high sulfuric conditions.
- *Intelligent drill pipes.* This type of drill pipe has electric cables embedded in the pipe body which connect to the power source and control system on the ground. Through electrical cables, the intelligent drill pipe transmits data from downhole sensors with high information transmission speed, in contrast to conventional technology that transmits data at lower rates. The bidirectional information transmission capability of the intelligent drill pipe can transmit real time drilling data and information from downhole operations to ground control system, as well as send commands or signals to operate downhole tools and sensors. The intelligent drill pipe enables the drilling crew to promptly adjust the drilling process in accordance with specific underground conditions.

Our dedicated research and development team, with 61 members as of December 31, 2010, has developed a series of proprietary technology and drill pipe products based on 37 patents as well as a full suite of chemical formulas for coating materials. Senior members of this team consist of industry veterans. For example, Mr. Yuan Pengbin (袁鹏斌), the chief of our Shanghai Hilong Tubular Goods Research Institute, has been involved in various projects sponsored by National Innovation Fund and participated in the development of intelligent drill pipe. Mr. Gao Zhihai (高智海), the vice-chief of our Shanghai Hilong Tubular Goods Research Institute, is a senior engineer who has been involved in various oil and gas pipe related research and development projects and has obtained three patents. Mr. Fang Junfeng (方军锋) has been involved in various research and development projects in connection with the coating and anticorrosion of oil pipes and developed our TC series of coating materials.

Our expenditure on research and development for 2008, 2009 and 2010 totaled approximately RMB17.4 million, RMB22.3 million and RMB27.6 million, respectively. We believe the amount of resources that we allocate to our research and development activities is consistent with the industry norm and our development strategy.

MANUFACTURING AND QUALITY CONTROL

Overview

Drill Pipe Manufacturing Process

Our drill pipes manufacturing process can generally be divided into the following stages:

- *Upsetting.* In order to produce drill pipes, steel pipes are initially upsetted to thicken the walls that connect with the tool joints.
- *Heat treatment.* The pipes are then threaded and receive a strength-enhancing heat treatment including quenching and tempering.

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- *Initial Inspection.* After the upsetting and heat treatment process, a measurement and non-destructive test of the pipes is conducted through our laser measurement system and ultra-sonic testing equipment to ensure the upsetting quality.
- *Welding and related heat treatment.* The pipes are then welded to tool joints and undergo a heat treatment to enhance the strength of the welding area and a weld finishing process to remove welding stress.
- *Final testing.* Various testing and inspections are then carried out on the finished drill pipes before hardbanding, final coating and packaging.

Coating Process

Our coating service process can generally be divided into the following stages:

Cleaning. The drill pipes are initially cleaned through sandblasting to remove oxide particles on the surface of the drill pipes. An initial inspection is carried out upon completion of this cleaning process.

Primer coating. The drill pipes are then coated with primer coating materials and baked to form a layer of primer coating on the surface of the drill pipes. Inspections are carried out after the coating and baking process to ensure that the primer coating is free of bubbles and other defects.

Surface coating and curing. The drill pipes are then coated with surface coating materials upon the primer coating and further baked to become the final solid coating, which is known as curing process. Final inspections are carried out after the surface coating and curing process.

Engineering

We apply different heat treatment process to drill pipes and related products according to their material and steel grade. In order to develop a proper heat treatment process for a type of product, we carry out heat treatment experiments to test the result of the heat treatment and gradually expand the application of such heat treatment process if the results of the experiments meet with the technical specifications of such products. Through these experiments, we are able to reduce the scrap rate during the manufacturing process and therefore reduce our production costs. In addition, our heat treatment also enhances the mechanical performance of our non-API products, such as improving the resistance to hydrogen sulfide stress corrosion and high torsion stress.

In addition, through years of research and experiments, we successfully developed our unique drill pipe upsetting technique and process. By applying this technique, we are able to monitor the formation of the transitional zone during the upsetting process, and therefore ensure the internal surface of the drill pipe is thickened evenly and smoothly. This upsetting technique helps to reduce the chance of drill pipe break down during the drilling process.

During the Track Record Period, there had been no customer claim, complaint or litigation for product flaw, defect or product liability which could have a material and adverse impact upon our business and reputation. However, there can be no assurance that our products are manufactured without undetected flaws or defects. See “Risk Factors—Risks Relating to Our Business and Industry—Our products may contain undetected flaws or defects. Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products.”

Quality Certifications

We have implemented stringent quality control measures throughout our production processes in accordance with national standards as well as ISO9001:2000 standards. Our primary manufacturing facilities and coating facilities have been ISO certified. Drill pipes manufactured in our facilities in Shanghai and Wuxi have obtained API certification. Our drill pipe products, hardbanding products and coating services have received Fearnley Procter NS-1 certification, which qualifies us to supply such products and services to major international oil and gas companies.

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PRODUCTION FACILITIES AND REAL PROPERTIES

Manufacturing Facilities

Drilling Tools and Related Products

As of the Latest Practicable Date, we own and operate four drill pipe manufacturing facilities and one hardbanding materials manufacturing facility. We have installed advanced equipment and instruments for the production and inspection of our drill pipes, including friction welding machines and heavy-load upsetting machines at our drill pipe manufacturing plants in Shanghai, Jiangsu and Shanxi.

The following table sets forth selected key information on our principal drill pipe and welding wire manufacturing facilities currently in operation:

<u>Manufacturing facility</u>	<u>Equity interest</u>	<u>Current location</u>	<u>Gross floor area (square meters)</u>	<u>Lease/own</u>	<u>Main products/services</u>
Shanghai Hilong Drill Pipe Co., Ltd.	100.0%	Shanghai, China	22,266	Owned ⁽¹⁾	Drill pipes and drill collars
Hilong Drill Pipe (Wuxi) Co., Ltd.	100.0%	Wuxi, Jiangsu, China	6,478	Leased ⁽²⁾	Drill pipes and tool joints
Jiangsu Hilong Drill Pipe Co., Ltd.	100.0%	Jiangyan, Jiangsu, China	5,267	Owned	Drill pipes
Shanxi Tangrong Hilong Drilling Pipe Co., Ltd.	51.0%	Shanxi, China	13,742	Owned ⁽³⁾	Drill pipes and drill collars
Shanghai BoTeng Welding Consumables Co., Ltd.	100.0%	Shanghai, China	864	Owned ⁽¹⁾	Hardbanding materials

(1) This facility is leased from Hilong Group of Companies, which is a member of the Group and holds the land use right to the facility's land. The current lease expires in December 2011.

(2) The current lease expires in November 2016, with an option to renew for an additional period as mutually agreed by the parties.

(3) Our joint venture partner, Shanxi Tangrong Automobile Component Manufacturing Group Co., Ltd., holds the land use right to the facility's land.

The following table sets forth our actual production capacity and utilization rate for our drill pipe facilities for the Track Record Period:

		For the year ended December 31,		
		<u>2008</u>	<u>2009</u>	<u>2010</u>
		(In tonnes, except percentages)		
	Production capacity ⁽¹⁾	42,600	42,600	42,600
Drill pipes and related products	Utilization rate	90%	38%	69%

(1) Actual production capacity is estimated based on designed capacity discounted by the effect of, among other things, interruption, stoppage and maintenance.

Coating Materials and Services

As of the Latest Practicable Date, we have one coating material manufacturing facility, one oil and gas line pipes coating facility and three drill pipe coating facilities. We have installed advanced coating testers and inspection instruments, including coating mechanical property tester and trial production equipment at our coating material manufacturing plant in Shanghai. We equipped our coating service facilities primarily with coating machines we manufactured in-house, and supplemented this with equipment purchased from third parties.

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The following table sets forth selected key information on our coating materials and services facilities currently in operation.

<u>Manufacturing facility</u>	<u>Equity interest</u>	<u>Current location</u>	<u>Gross floor area (square meters)</u>	<u>Lease/own</u>	<u>Main products/ services</u>
Shanghai Hilong Shine New Material Co., Ltd.	100.0%	Shanghai, China	7,048	Owned ⁽¹⁾	Coating material manufacturing
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	100.0%	Shanghai, China	4,608	Owned ⁽¹⁾	Oil and gas line pipes coating service
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	51.0%	Shanghai, China	8,284	Owned	Drill pipe and tubing and casing coating service
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	58.2%	Jiangyan, Jiangsu, China	29,988	Leased ⁽²⁾	Drill pipe and tubing and casing coating service
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	65.0%	Houma, Shanxi, China	4,212	Owned ⁽³⁾	Drill pipe coating service

(1) The current lease expires in December 2011. This facility is leased from Hilong Group of Companies, which is a member of the Group and holds the land use right to the facility's land.

(2) The current lease expires in September 2023, with automatic extension for additional one-year periods upon advance notice.

(3) Our joint venture partner, Shanxi Tangrong Automobile Component Manufacturing Group Co., Ltd., holds the land use right to the facility's land.

The following table sets forth our actual production capacity and utilization rate for our coating material manufacturing and coating service facilities for the Track Record Period:

		For the year ended December 31,		
		2008	2009	2010
Drill pipe coating material manufacturing (<i>in tonnes</i>)	Production capacity ⁽¹⁾	1,000	1,000	1,000
	Utilization rate	82%	52%	95%
Oil and gas line pipe coating material manufacturing (<i>in tonnes</i>)	Production capacity ⁽¹⁾	13,000	20,760	20,760
	Utilization rate	92%	82%	61%
Drill pipe coating services (<i>in thousands of meters</i>)	Production capacity ⁽¹⁾	1,850	1,850	2,150
	Utilization rate	112% ⁽²⁾	70%	113%
Oil and gas line pipe coating services (<i>in thousands of square meters</i>)	Production capacity ⁽¹⁾	1,800	3,100	3,100
	Utilization rate	64%	98%	77%

(1) Actual production capacity is estimated based on designed capacity discounted by the effect of, among other things, interruption, stoppage and maintenance.

(2) The utilization rate exceeded 100%, primarily because interruption, stoppage and maintenance occurred less frequently during the period than the level used for estimating the actual production capacity, reflecting high demand for drill pipe coating services during the period.

Oilfield Services

As of the Latest Practicable Date, we owned eight onshore drilling rigs ranging from 650 horsepower to 2,000 horsepower. We entered oilfield services business in 2008, and our revenue from this operating segment in 2008 was primarily derived from trading of drilling-related products. We owned three drilling rigs in 2009 and 2010, and leased one drilling rig from an independent third party in 2009. Based on estimated number of workable days taking into account interruption, maintenance and stoppage due to weather or other conditions, the utilization rate of our drill rigs was 81% in 2009 and 89.5% in 2010.

Real Properties

Our headquarters is located in Shanghai, China. We hold the land use rights to the underlying parcels of land for our facilities located in Shanghai and Jiangsu. As of February 28, 2011, the total site area of the properties that we owned and have valid ownership certificates was approximately 256,086 square meters, of which, our existing facilities in Shanghai, and Jiangyan occupy approximately 226,166 square meters and 29,920 square meters, respectively, with a total GFA of approximately 53,813.28 square meters and 4,992.47 square meters, respectively. We occupy our owned properties for purposes of production, warehouses, offices and others. As of February 28, 2011, we leased 15 properties with a total GFA of approximately 63,701.24 square meters.

We are in the process of obtaining the land use right for a parcel of land with a gross land area of 29,752 square meters in Sichuan Province. We won the bid of land use right with respect to such land in February 2011 and have duly paid the premium required to obtain such land use right. We expect to obtain the land use right of such land in June 2011. We commenced construction of coating service facilities and office spaces with a gross floor area of 15,075 square meters on the land in November 2009, and have not commenced production at such facilities. We have obtained the consent from competent local authorities in Sichuan Province with respect to our commencement of construction on such land. Although such consent was given prior to the local authority's issuance of approval for construction commencement, the local authority has agreed to issue the relevant approvals after the construction is completed. We have been advised by King & Wood, our PRC legal adviser, that (i) there is no material legal impediment for the Group to obtain the land use right certificate with respect to such land in Sichuan Province; and (ii) the likelihood for the local authority to impose any fine or penalty as a result of such lack of land use right certificate or commencement of construction on such land in Sichuan Province is remote.

In addition, we leased (i) the production facility used by Shanxi Tangrong Hilong Drilling Pipe Co., Ltd. in Shanxi Province with a gross floor area of 13,742 square meters and production capacity of 2,000 tons per annum; (ii) the production facility used by Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co. Ltd. in Shanxi Province with a gross floor area of 5,577 square meters; and (iii) the production facility used by Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. in Jiangsu Province with a gross floor area of 29,988 square meters and production capacity of 0.5 million meters per annum, from our joint venture partners to these entities. As of the Latest Practicable Date, these joint venture partners were in the process of obtaining property titles to such facilities. We have been advised by the lessors that there is no material legal impediment for them to obtain property titles to these facilities from relevant PRC governmental authorities. In addition, our joint venture partners to these entities have agreed to indemnify us against or otherwise hold us harmless from any loss as a result of our use of such leased properties.

We believe that the likelihood for us to relocate the related operations as a result of such lack of property titles is remote. However, to the extent that any material fines or penalties are imposed by the governmental authority, or that any other loss sustained by us as a result of our usage of such properties is not fully indemnified by the lessors, our business, financial condition and results of operations could be materially and adversely affected. See "Risk Factors—Risks Relating to Our Business and Industry—We face certain risks relating to the real properties that we own, use or lease." Save as otherwise disclosed above, we or our lessors held valid title to all material properties that we own or lease, as applicable, as of the Latest Practicable Date.

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COMPETITION

Major Participants

Our competitors vary significantly based on business segments and geographical markets. The following table sets forth our key competitors by product and service category and market.

<u>Product</u>	<u>PRC market</u>	<u>International markets</u>
Drill pipe products	NOV Grant Prideco; DP Master; Long Bright	NOV Grant Prideco; Vallourec & Mannesmann; Tenaris
Line pipe coating materials	3M, SK Group, Dupont;	3M, SK Group, Dupont; Socotherm; Borealis/Borouge
OCTG coating materials and services	NOV Tuboscope	NOV Tuboscope; Shawcor; Schlumberger;
Oilfield services	N/A	Local oilfield service providers

Competitive Landscape

The following summarizes the competitive landscape in each of these product and service category:

- *Drill pipe products.* The selection of a drill pipe supplier is typically made by a contract drilling firm's operations department and procurement department following a competitive bid process. The most important selection criteria are typically quality, price, and availability. Outside China and Russia the market is dominated by three large multinational firms (the Grant Prideco division of NOV, Tenaris, and Vallourec & Mannesmann), each with significant financial resources and a long-established track record. The Russia and Chinese drill pipe markets are not as highly concentrated as other markets; in both Russia and China the leading drill pipe competitor is estimated to hold about 30% of the market. In the Russian market, OAO TMK, a domestic drill pipe manufacturer, competes with a number of primarily China-based importers, while approximately 20 firms compete in the Chinese drill pipe market. In China, based on 2009 sales, we are the leading drill pipe manufacturer. Other significant suppliers to the Chinese drill pipe market include Grant Prideco, DP Master and Long Bright. In all approximately 20 firms are believed to compete in the Chinese drill pipe market.
- *Line pipe coating materials.* The line pipe coating materials market is supplied by a number of large, diversified multinational firms with significant technical expertise, proprietary technology, extensive manufacturing networks, and proven records of performance. Most of these companies are focused on addressing critical service applications (either due to operating conditions or construction constraints) requiring innovative technology solutions. Many of these multinational line pipe coating materials companies have developed close working relationships with coating applicators, pipeline construction firms, and pipeline operators in many countries through training and certification programs. In addition, local or regional coating materials vendors supplying low-cost coating products such as FBE will also compete in non-critical service applications. In China, based on 2009 sales, we are the leading line pipe coating materials manufacturer. Other significant players in the Chinese line pipe coating materials market include 3M, SK Group, and Dupont. These line pipe coating materials companies have developed close working relationships with coating applicators, pipeline engineering and construction firms and pipeline operators in China through training and certification programs.
- *OCTG coating materials and services.* The most important vendor selection factors are local market presence, quality of service, technology, and price. Over time, oil and gas companies (which own casing and tubing) and drilling contractors (who purchase drill pipe) are increasingly requiring sophisticated tubular tracking and management skills from their OCTG coating and inspection suppliers as they seek to maximize the useful life of their OCTG assets. The OCTG coating materials and services industry is a mature market served by well-established vendors. Most firms that provide coating services also provide inspection services and some will also provide tubular maintenance

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services. The OCTG coating materials and services market is highly consolidated, particularly outside North America, Russia, and China. Tuboscope dominates this market with approximately 50% of the North American market and approximately 80% of the international (excluding Russia and China) market. Based on 2009 sales, the Group is the leading Chinese OCTG materials and coating service firm, followed by NOV Tuboscope which competes in China through its joint ventures with domestic partners.

- *Drilling services market.* The selection of a drilling services firm is typically made by the oil company's drilling department and procurement department following a competitive bid process. The most important selection criterion is typically price, although other factors do come into play including past experience/reputation, technical sophistication, condition of equipment, and experience of personnel. In most markets in China and elsewhere in the world, competitors include: (i) large multinational oilfield service firms with significant financial and technical resources focused primarily on high-risk "critical service" projects, (ii) local or regional firms with detailed knowledge about local surface or downhole drilling conditions which allows them to more precisely estimate operating time/costs and thus underbid competitors that have less local knowledge, and/or (iii) the in-house drilling service subsidiaries of national oil companies which tend to compete on price on low-risk projects for their parent company.

Entry Barriers

The following summarizes the entry barriers in each of these product and service category:

- *Drill pipe products.* The drill pipe market is highly capital intensive on both a capital and operating cost basis, and the qualification process to become an approved vendor can be time-consuming and expensive. In addition, the drill pipe manufacturing process requires sophisticated metallurgical skills and experience. As a result, firms entering the drill pipe market must have significant financial and technical resources.
- *Line pipe coating materials.* The primary barrier to penetrating the line pipe coating materials market is the time and cost required to establish a proven track record necessary for general market acceptance. Products designed to address the critical service segment of the market will require considerable technical expertise and significant research and development budgets.
- *OCTG coating materials and services.* The primary barrier to penetrating the OCTG coating materials and services market is the time and cost required to establish a proven track record necessary for general market acceptance with both pipe mills and their customers (oil and gas companies and drilling contractors). In addition, the cost of and operating expertise associated with inspection technology acts as an entry barrier to the inspection segment of the OCTG market.
- *Drilling services.* Barriers to entering the drilling services market are very high. The drilling services market is capital intensive and requires both well-maintained equipment and experienced personnel in order to be competitive. In addition, it takes time for drilling services firm to establish a proven track record in order to find wide acceptance in the market. Developing proprietary technology is often critical in order to be able to compete for high-risk "critical service" assignments.

For further information on market share data and other industry information on the product and service category in which we compete, see "Industry Overview" and "Industry Consultant Report" in Appendix IV of this prospectus.

INTELLECTUAL PROPERTY

We rely on a combination of patents, trademarks and contractual rights to protect our intellectual property rights. As of the Latest Practicable Date, we owned 35 registered patents and 98 registered trademarks in the PRC and elsewhere in the world. We also have 21 patents and 49 trademarks pending approval for registration in

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the PRC and elsewhere in the world. Our intellectual properties also include tradenames, software, project references, technical data such as test results and operating data from projects, drawings, designs, and machinery and manufacturing techniques we developed in-house. We enter into confidential agreements or employment agreements with confidentiality provisions with our management employees and engineers. In particular, we primarily rely on such confidential agreements for the protection of our key technologies in coating materials. See “Appendix VI—Statutory and General Information” for more information on our intellectual property rights. We are not involved in any litigation or legal proceedings for violation of intellectual property rights, nor are we aware of any violation of the same.

EMPLOYEES

As of December 31, 2008, 2009 and 2010, the total number of full-time employees employed our Group was 1,405, 1,315 and 1,314, respectively. The following table sets forth the number of our full-time employees by business segment and area of responsibility as of December 31, 2010:

	<u>Headquarters</u>	<u>Drill pipes and related products</u>	<u>Coating materials and services</u>	<u>Oilfield services</u>	<u>Total</u>
On-site workers	14	430	300	136	880
Administrative	37	97	91	32	257
Research and development	4	26	25	6	61
Sales and marketing	19	5	18	11	53
Company management	9	5	3	4	21
After-sales services	3	2	9	2	16
Overseas representatives	<u>10</u>	<u>0</u>	<u>0</u>	<u>16</u>	<u>26</u>
Total	<u>96</u>	<u>565</u>	<u>446</u>	<u>207</u>	<u>1,314</u>

We have not had any labor strikes or other labor disturbances that have interfered with our operations, and we believe that we have maintained a good working relationship with our employees. As advised by King & Wood, our PRC legal adviser, we have been in compliance in all material respects with applicable employment laws during the Track Record Period.

We provide various healthcare benefits and insurance to our employees in accordance with applicable laws and regulations. As of the Latest Practicable Date, we have not experienced any material work related injuries or fatalities.

OCCUPATIONAL HEALTH AND SAFETY

Our operations involve welding, handling of heavy machinery and components and hazardous chemicals. As a result, our employees may face the risk of various work-related injuries and accidents. Moreover, the occurrence of any of the foregoing events could result in damage to, or destruction of properties or manufacturing facilities, business interruption and possible legal liability. See “Risk Factors—Risks Relating to Our Business and Industry—We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive.”

We are subject to the relevant rules and regulations on occupational health and safety, such as the Safe Production Law of the PRC, the Law of the PRC on the Prevention and Treatment of Occupational Diseases and Regulations on the Reporting, Investigation and Handling of Work Safety Accidents. For further details, see “Regulations.” We have established work safety policies or procedures to ensure that all parts of our operations are in compliance with existing laws and regulations. During the Track Record Period, there had been no instance of major work related injuries or casualties which could have a material and adverse impact upon our business and operations. However, there can be no assurance that we would not suffer from any loss or injury resulting from inherent occupational hazards. See “Risk Factors—Our business operations involve risks and occupational hazards.”

BUSINESS

ENVIRONMENTAL MATTERS

Our production processes primarily involve the manufacture and assembly of components, and we do not operate in a highly-polluted industry. Our operations in the PRC are subject to a number of environmental laws and regulations. See “Regulations.” During the Track Record Period, we were in compliance in all material respects with applicable environmental laws, and did not incur any material cost in complying with such laws. Although we do not expect to incur any material cost in this regard in the future, any additional or more onerous environmental laws or regulations may cause us incur significantly increased costs, which we may not be able to pass on to our customers. See “Risk Factors—Risks Relating to Our Business and Industry—We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive.”

INSURANCE

Based on the industry practice and our experience, we believe that we have maintained insurance coverage we consider necessary and sufficient for our operations and customary for the industry in which we operate. In particular, we maintain insurance coverage for our assets, including production facilities, machinery, equipment and vehicles. We also purchase logistic insurance for transportation of our products based on need and our negotiation with our customers. We maintain statutorily required insurance for our employees, including work-related injury insurance, medical insurance, maternity insurance, unemployment insurance and pension insurance. We also maintain property and casualty insurance for our oilfield service business overseas. Consistent with what we believe to be customary practice in the PRC, we do not maintain and do not expect to maintain any product liability insurance or business interruption insurance. As of the Latest Practicable Date, we had not received any material product liability or third party liability claims from our customers or any other third parties and have not experienced any material business interruptions during the Track Record Period. Although we maintain insurance that we consider customary for our industry and our operations, we may still be subject to losses resulted from the risks that are not covered by the insurance we currently carry on. See “Risk Factors—Risks Relating to Our Business and Industry—We may not maintain sufficient insurance coverage for the risks associated with our business operations.”

ACTIVITIES SUBJECT TO U.S. ECONOMIC SANCTIONS LAWS

The U.S. Department of the Treasury’s Office of Foreign Assets Control, or OFAC, administers certain laws and regulations, or U.S. Economic Sanctions Laws, that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of U.S. Economic Sanctions Laws, or Sanctions Targets. U.S. persons are also generally prohibited from facilitating such activities or transactions. In 2008, we generated turnover of approximately Euro 3.0 million in sales of products to Sanctions Targets in Iran. Since January 1, 2009, we have not had any direct sales to Sanctions Targets, including those in Iran. As of December 31, 2010, our accounts receivable on sales to Iran was nil. We have not been subject to any penalties in connection with our sales to Iran, and do not expect any penalties to be imposed in connection with such sales. In addition, we sell a portion of our products in the international markets through independent non-U.S. distributors which are responsible for interacting with the end customers of our products. To our knowledge, such distributors have not resold any of our products to Sanction Targets during the Track Record Period. None of the proceeds of the Global Offering will be used to fund transactions or activities which would, if undertaken by a U.S. person as defined in U.S. Economic Sanctions Laws, be prohibited by U.S. Economic Sanctions Laws. To ensure ongoing compliance with U.S. Economic Sanctions Laws, we have recently commenced an OFAC training program for those employees whose job responsibilities implicate OFAC compliance in order to promote awareness of our obligations under the U.S. Economic Sanctions Laws and to help employees understand their roles and responsibilities. In addition, we have recently implemented an independent review program by our internal audit department as part of which it will conduct periodic independent reviews of our OFAC compliance efforts and report findings to our senior management.

LEGAL PROCEEDINGS AND COMPLIANCE

We are involved in legal proceedings arising from the ordinary course of our operations from time to time. To the knowledge of our Board of Directors, we are not involved in or threatened by any litigation or other legal matters which, if decided adversely against us, could reasonably be expected to have a material adverse impact on our business or operations. As advised by King & Wood, our PRC legal adviser, we have been in compliance in all material respects with applicable laws of the PRC during the Track Record Period. In addition, with respect to our operations in Kazakhstan and Ecuador, we have been advised by Salans LLP, our Kazakhstan legal adviser, and Pérez Bustamante & Ponce, our Ecuador legal adviser, that we have not had any instance of material non-compliance with applicable laws of Kazakhstan and Ecuador, respectively, or otherwise failed to obtain any material governmental permit or license, as applicable, which could have a material and adverse impact on our overall business and operations during the Track Record Period.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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

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

DELINEATION OF BUSINESS

Business Held Indirectly Through Hailong International (L) Limited

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

Hilong USA, LLC

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

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

Interest in Other Companies

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Business Held Directly by Mr. Zhang

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

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

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

Hilong Oil Pipe Co., Ltd.

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

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

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

Huashi Hailong

Huashi Hailong is beneficially owned by Mr. Zhang as to 95.65%. Huashi Hailong is an investment holding company and is also engaged in trading business. During the Track Record Period, our Group has sourced welding wires from Huashi Hailong. The sourcing accounted for 5%, 2% and 0% of the purchases of our Group for the years ended 2008, 2009 and 2010, respectively. Such transactions were discontinued since December 2010 and our Group currently sources welding wires from independent third parties.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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

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

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

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

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

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

Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) (“Hebei Zhongxin”) is 60% beneficially owned by Huashi Hailong and 40% by an independent third party and is solely engaged in the production and sale of diesel engine components and drill rig components during the Track Record Period. For the three years ended December 31, 2008, 2009 and 2010, the revenue of Hebei Zhongxin amounted to approximately RMB12.2 million, RMB10.1 million and RMB16.5 million, respectively.

During the Track Record Period, Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) (“Hilong Oil Service”) sourced spare parts from Hebei Zhongxin. The sourcing from Hebei Zhongxin accounted for 0.06%, 0.004% and 0.115% of the purchases of our Group for the three years ended 2008, 2009 and 2010, respectively. Such sourcing is expected to continue after Listing. In addition, it is expected that Hilong Oil Service will source large scale drilling rig components, including electric-controlled equipment from Hebei Zhongxin in the future in order to expand its service area. Please refer to the section headed “Connected Transactions” for details.

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

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

During the Track Record Period, Beijing Huashi Hilong Oil Investment Company Limited (北京華實海隆石油投資有限公司) (“Beijing Huashi Investment”) engaged in purchase of welding wires from our Group and sale of welding wires to other members of our Group. Beijing Huashi Investment is 98% beneficially owned by Huashi Hailong. The purchases from Beijing Huashi Investment accounted for 0%, 0.72% and 1.32%

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

of the purchases of our Group for the three years ended 2008, 2009 and 2010, respectively. The sales to Beijing Huashi Investment accounted for 0%, 0.41% and 0.44% of the revenue of our Group for the three years ended 2008, 2009 and 2010, respectively. Beijing Huashi Investment is currently engaged in property investment and the operation of hotels and conference centers. It is expected that Beijing Huashi Investment will lease certain of its properties in Beijing to our Group and provide hotel, office and conference services for our employees, suppliers and customers for business purpose. Please refer to the section headed “Connected Transactions” for details.

Other Companies Held by Our Controlling Shareholders

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

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

Delineation From Our Group’s Business

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

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

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

Management Independence

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

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

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

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

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

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

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

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

Operational Independence

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

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

Financial Independence

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

In addition, our Group's bank borrowings in the sum of RMB384,758,000 was guaranteed by, inter alia, Mr. Zhang Jun, as at December 31, 2010. Such guarantees will be released by the Group upon Listing.

As at December 31, 2010, total non trade other receivables of RMB160.1 million is due from Huashi Hailong to our Group. Such non-trade receivables due from Huashi Hailong to our Group have been settled in full in March 2011.

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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

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

NON-COMPETITION UNDERTAKING

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

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

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

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

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

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

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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

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

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

CORPORATE GOVERNANCE MEASURES

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

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

CONNECTED TRANSACTIONS

OVERVIEW

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

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

EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

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

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

For the years ended December 31, 2008, 2009 and 2010, the total transaction amount for the provision of services was approximately RMB0, RMB2.1 million and RMB6.4 million, respectively. The annual caps for the transactions under the Technology Service Agreement for the three years ending December 31, 2013 have been set at approximately RMB2.6 million, RMB2.4 million and RMB1.5 million, respectively. The annual caps are determined on normal commercial terms and the expected decrease in demand for such services upon maturity and development of our own research and development platform.

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

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

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

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

CONNECTED TRANSACTIONS

For the three years ended December 31, 2010, the total transaction amount for the provision of services was approximately RMB6.0 million, RMB6.0 million and RMB0.94 million, respectively. The annual caps for the transactions under the Technology Consultancy Agreement for the three years ending December 31, 2013 have been set at approximately RMB1.9 million, RMB1.2 million and RMB0.83 million, respectively. The annual caps are determined by reference to historical transaction figures and expected decrease in demand for such services upon maturity and development of our own research and development platform.

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

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

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

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

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

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

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

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

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

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

CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

WAIVER FROM THE STOCK EXCHANGE

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

CONNECTED TRANSACTIONS

CONFIRMATION FROM OUR DIRECTORS

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

CONFIRMATION FROM THE SOLE SPONSOR

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

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The Board consists of nine directors, including three executive Directors, three non-executive Directors, and three independent non-executive Directors. The table below sets forth information regarding our Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Management Position</u>	<u>Date of Appointment</u>
ZHANG Jun (張軍)	43	Chairman, executive Director and chief executive officer	December 2, 2010
ZHANG Shuman (張姝嫻)	37	Executive Director and chief strategy officer	December 2, 2010
JI Min (紀敏)	35	Executive Director and chief financial officer	December 2, 2010
DATUK SYED HISHAM Bin Syed			
Wazir	56	Non-executive Director	February 28, 2011
YUAN Pengbin (袁鵬斌)	51	Non-executive Director	December 2, 2010
WANG Tao (汪濤)	47	Non-executive Director	December 2, 2010
WANG Tao (王濤)	64	Independent non-executive Director	December 2, 2010
LIU Qihua (劉奇華)	45	Independent non-executive Director	December 2, 2010
LEE Siang Chin	62	Independent non-executive Director	December 2, 2010

Executive Directors

Mr. ZHANG Jun (張軍), aged 43, is the chairman of our Board, an executive Director and the chief executive officer of the Company. Mr. Zhang was appointed as our Director on December 2, 2010. As the chief executive officer, Mr. Zhang is responsible for the overall business operations and strategy formulation of the Company. Mr. Zhang has over 20 years of experience in the petroleum industry. From 2001 to 2007, Mr. Zhang engaged in the formation of several subsidiaries of our Group.

Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of CNPC, which is a state-owned enterprise, in 1990 upon graduation from the university. Mr. Zhang served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. In that position, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of our Group.

Mr. Zhang received a diploma in mechanical manufacturing process and equipment from Hebei Radio and TV University (河北廣播電視大學) in 1990. In 2009, he was awarded one of the “Top 10 Influential Leaders in China’s Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009” (2009 中國石油石化裝備製造業十大最具影響力領軍人物) by the National Energy Commission (國家能源委員會). Mr. Zhang is the brother of Ms. Zhang Shuman.

Ms. ZHANG Shuman (張姝嫻), aged 37, is our executive Director and chief strategy officer. Ms. Zhang was appointed as Director on December 2, 2010. With over 14 years of experience in the oil service industry, including her experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau from 1996 to 2003, Ms. Zhang is primarily responsible for the financing activities and strategic investment activities of our Group. Ms. Zhang has been a director of Hilong Group of Companies and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. since 2008. From 2003 to 2006, Ms. Zhang acted as a joint secretary to the board of directors and coordinator of China joint ventures invested by UMW Ace (L) Ltd..

Ms. Zhang received a bachelor’s degree in international economics law from China University of Political Science and Law (中國政法大學) in 1997 and a degree of executive master of business administration through a distance education program provided by Sino-European International Management Institute (中歐國際管理學院)

DIRECTORS AND SENIOR MANAGEMENT

in 2009. Ms. Zhang holds a certificate of Accounting Professional issued by Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the sister of Mr. Zhang.

Mr. Ji Min (紀敏), aged 35, is our executive Director and the chief financial officer. Mr. Ji was appointed as Director on December 2, 2010. As chief financial officer, Mr. Ji is responsible for overall financial and corporate finance management of the Company. Mr. Ji worked for PricewaterhouseCoopers from 1997 to 2006 and served as its senior manager. Mr. Ji gained extensive experiences in auditing and client management and participated in the audit work of several initial public offerings in China, including the listing of PetroChina Company Limited (中國石油天然氣股份有限公司) on the Hong Kong Stock Exchange (stock code: 0857).

Prior to joining our Group in 2010, Mr. Ji acted as finance director of The9 Limited, an online gaming operation and development company (NASDAQ: NCTY), where he was responsible for overall financial operation from 2006 to 2007. From 2007 to 2010, Mr. Ji served as vice president of T2CN Information Technology (Shanghai) Co., Ltd. (天聯世紀信息技術(上海)有限公司), an internet technology and service provider and was responsible for the financial, legal, human resources and administrative management.

Mr. Ji received a bachelor's degree in accounting from Shanghai Jiao Tong University (上海交通大學) in 1997. He is a member of the Chinese Institute of Certified Public Accountants.

Non-executive Directors

Datuk SYED HISHAM Bin Syed Wazir, aged 56, is our non-executive Director. Datuk Syed Hisham was appointed as Director on February 28, 2011. Datuk Syed Hisham is the president and chief executive officer of UMW Holdings Berhad, a Malaysian-based company which engages in the business of providing engineering solutions to the automotive, petrochemicals and oil and gas industries and listed on the Kuala Lumpur Stock Exchange (UMWS.KL), since 2010.

Datuk Syed Hisham has over 27 years of experience in senior management. From 1983 to 1998, Datuk Syed Hisham held various management positions in companies in Malaysia, including assistant manager in the project development division of Hicom Berhad, director of Proton Cars (UK) Pte. Ltd. and general manager of Proton Corpn Sdn Bhd. From 1998 to 2000, Datuk Syed Hisham served as general manager in the international business department of DRB-Hicom Export Corporation Sdn Bhd. From 2001 to 2002, Datuk Syed Hisham also served as general manager in the marketing division of Honda Malaysia Sdn Bhd, where he subsequently served as president and chief operating officer from 2003 to 2005. Datuk Syed Hisham acted as managing director of Edaran Otomobil Nasional Berhad from 2005 to 2009 and as chief operating officer of Naza Kia Sdn Bhd and Naza Kia Services Sdn Bhd from 2009 to 2010.

Datuk Syed Hisham received his bachelor's degree in mechanical engineering from Plymouth University in 1979 and his master's degree in business administration from Ohio State University in 1996. He is a fellow member of the Institute of Motor Industry in the United Kingdom.

Mr. YUAN Pengbin (袁鵬斌), aged 51, is our non-executive Director. Mr. Yuan was appointed as Director on December 2, 2010. He also serves as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. since 2005 and a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. since 2008. He has over 27 years of research and development experience in the petroleum industry. Since joining our Group in 2005, he served as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd., the institute head of Shanghai Hilong Tubular Goods Research Institute and an executive director and the deputy general manager of Hilong Group. Although Mr. Yuan will continue to hold managerial positions in our subsidiaries, his role at the Company level will be limited to non-executive functions. Prior to joining our Group, he worked for CNPC Tubular Goods Research Center (中國石油天然氣集團公司石油管材研究所), where he was engaged in the applied research, quality control and technology supervision of petroleum tubular goods, from 1983 to 2005. He acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yuan received a bachelor's degree in engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a doctoral degree in engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer in heat treatment.

Mr. WANG Tao (汪濤), aged 47, is our non-executive Director. Mr. Wang was appointed as Director on December 2, 2010. He also serves as directors of Hilong Drilling & Supply FZE and Hilong Oil Services and Engineering Nigeria Limited since 2010. Mr. Wang has over 22 years of management experience in the petroleum industry and he serves as vice general manager of Hilong Group from 2006 to present. Although Mr. Wang holds an executive role in Hilong Group, his involvement at the Company level will be limited to non-executive functions. Prior to joining our Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991 and was responsible for on-site operation and business administration. From 1991 to 2001, Mr. Wang acted as assistant to chief manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supplier, from 2001 to 2006. Mr. Wang received a diploma in economics and management from Northwest University (西北大學) in 1988.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 64, was appointed as our independent non-executive Director on December 2, 2010. Mr. Wang has 37 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of PRC (中華人民共和國第五機械工業部5214廠) as a technician. From 1998 to 2003, he acted as the general manager of Jinan Diesel Engine Factory (濟南柴油機廠) and chairman of Jinan Diesel Engine Company Limited Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager and senior engineer of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院, now known as Xidian University (西安電子科技大學)) from 1965 to 1970 and obtained a certificate of completion of studies in 1970.

Mr. LEE Siang Chin, aged 62, was appointed as an independent non-executive Director on December 2, 2010. Mr. Lee has over 37 years of experience in the provision of finance consultancy services for companies in Malaysia, London, Australia and Hong Kong. Mr. Lee serves as directors in the following companies:

<u>Company</u>	<u>Position held</u>	<u>Listed</u>	<u>Appointed in</u>
Star Publications (Malaysia) Bhd. . . .	Independent non-executive director	Listed on Bursa Malaysia (Malaysia Stock Exchange)	2010
Value Partners Group Limited	Independent non-executive director	Listed on the Stock Exchange (0806)	2007
AmFutures Sdn. Bhd.	Independent non-executive director	Not listed	2005
AmInvestment Services Sdn. Bhd. . .	Independent non-executive director	Not listed	2003
UniAsia Life Assurance Bhd.	Independent non-executive director	Not listed	2006
Social Security Organisation	Independent non-executive director	Not listed	2007
AmFraser Securities Ptd. Ltd.	Independent non-executive director	Not listed	1991

Mr. Lee had previously served as chairman and managing director of Surf88.Com Sdn. Bhd. from 1999 to 2004 and managing director of Arab-Malaysian Securities Sdn. Bhd. (now known as AmSecurities Sdn. Bhd.) from 1986 to 1999, and he also had worked on corporate finance in various investment or merchant banks in London, Sydney and Kuala Lumpur. He had held various public offices and had served as a board member of the Kuala Lumpur Stock Exchange from 1987 to 1988 and president of the Association of Stock Broking Companies in Malaysia from 1997 to 1999.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Association of Certified Public Accountants.

Mr. LIU Qihua (劉奇華), aged 45, was appointed as our independent non-executive Director on December 2, 2010. From 1987 to 1995, Mr. Liu worked as an editor of Science Press Company Limited (科學出版社有限責任公司), an associate of Chinese Academy of Science (中國科學院). From 1995 to 1999, Mr. Liu served as a film director of China Intercontinental Communication Center (五洲傳播中心) of State Council Information Office of PRC (中華人民共和國國務院新聞辦公室). He served as editor in chief of Panda TV and as director of Flying Rainbow Communication Co., Ltd. from 1995 to 1998. In 1999, Mr. Liu founded Beijing Dongfang Jiayuan Culture & Art Development Company Limited (北京東方家園文化藝術發展有限公司), a company engaged in the development of art and culture, and has been the managing director of the same company since then. We believe that Mr. Liu's experience in the State Council Information Office will assist us in understanding PRC's governmental policies, in particular those which may affect the industry we currently operate in. Mr. Liu received his bachelor's degree in science from Jilin University (吉林大學) in 1987.

Each of our Directors has not been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules.

SENIOR MANAGEMENT

For biographies of Mr. ZHANG Jun, Ms. ZHANG Shuman and Mr. JI Min, see “—Board of Directors—Executive Directors”. Others members of our senior management team consist of the following.

Mr. CHEN Su (陳甦), aged 52, is the general manager of Hilong Group since 2007 and a director of Hilong Oil Services and Engineering Co., Ltd. since 2008. Mr. Chen has over 28 years of experience in the petroleum industry. From 1982 to 2005, he worked the department of steel pipe manufacturing Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司) and served as its branch factory manager, deputy general manager and general manager. In 2005, he also served as the deputy general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). Mr. Chen received a bachelor's degree in engineering from Shanghai University of Technology (上海工業大學) in 1982.

Mr. DAI Daliang (代大良), aged 44, is a director of Hilong Drilling & Supply FZE since 2010, a director of Hilong Oil Services and Engineering Nigeria Limited since 2010 and a director and the general manager of Hilong Oil Service & Engineering Co., Ltd. since 2008. Mr. Dai has over 21 years of experience in the petroleum industry. Prior to joining our Group, from 1989 to 1995, Mr. Dai worked as engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司) and was engaged in drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司) and was engaged in international drilling cooperation. From 1996 to 2008, he worked for Greatwall Drilling Company Limited (“GWDC”, 中油長城鑽井有限責任公司) as its co-manager of marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by GWDC. In 2008, he worked as assistant to general manager CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a bachelor's degree in engineering from Central South University of Technology in 1987, a master's degree in engineering from Central South University of Technology (中南工業大學) in 1990 and a doctorate degree in engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. LIU Yizhuang (劉義壯), aged 48, is the general manager of the international business department of Hilong Group of Companies Ltd. since 2006 and is responsible for matters relating to international trade. Mr. Liu has over 25 years of experience in the petroleum industry. He started his professional career when he joined Offshore Oil Engineering Design Co., Ltd. (海洋石油工程設計公司), a subsidiary of China National Offshore Oil Corp (中國海洋石油總公司), in 1985. During his employment with Offshore Oil Engineering Design Co., Ltd., he participated in several offshore oil engineering construction projects, including the development of Bozhong 28-1 and Jinzhou 20-2 Oilfields. From 1992 to 2005, he served as general manager of oil business department of the Beijing office of Tenaris Global Services S.A., a leading enterprise in the world's seamless steel pipe industry,

DIRECTORS AND SENIOR MANAGEMENT

and was responsible for the sales and after-sale services of oil pipes in East Asia. Mr. Liu received his bachelor's degree in engineering from China University of Petroleum (Huadong) (中國石油大學 (華東)) (formerly known as East China Petroleum Institute (華東石油學院)) in 1985. He completed the program for executive development in International Institute for Management Development, Lausanne in 2001.

Mr. CAO Yuhong (曹育紅), aged 41, is the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 19 years of experience in the petroleum industry. Prior to joining our Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau and served as its deputy manager of coating branch from 1996. Mr. Cao received a bachelor's degree in engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學) in 1991.

Mr. FANG Junfeng (方軍鋒), aged 40, is a director and the general manager of Shanghai Hilong Shine New Material Co., Ltd. since 2006 and a director and the general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. since 2008. Mr. Fang has over 17 years of experience in tubular goods research. Prior to joining our Group, from 1993 to 1999, Mr. Fang served as director of anti-corrosion research laboratory in CNPC Tubular Goods Research Institute (中國石油天然氣集團管材研究所). From 2002 to 2003, he served as director of on-site inspection department in CNPC Tubular Goods Research Institute. From 2003 to 2004, he served as chairman and general manager in Shaanxi Ante Technology Engineering Company Limited (陝西安特技術工程有限公司). Mr. Fang received his bachelor's degree in engineering from Hunan University (湖南大學) in 1993 and his master's degree in engineering from Xi'an Jiaotong University (西安交通大學) in 2003.

Mr. GAO Zhihai (高智海), aged 41, is the chairman and general manager of Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 15 years of experience in the petroleum industry. Prior to joining our Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received from Southwest Petroleum University (西南石油學院) a bachelor's degree in engineering in 1992 and a master's degree in engineering in 1995. Mr. Gao was named an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. XUE Zhijun (薛志軍), aged 47, is the general manager of CNOOC Tube-Cote Petroleum Pipe Coating Co., Ltd. Mr. Xue has over six years of experience in the petroleum industry. Prior to joining our Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as deputy manager of CNPC Bohai Petroleum Equipment Manufacturing Company Limited First Machinery Factory (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded an "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction" (國家西氣東輸工程建設先進個人) by National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and an "Outstanding Entrepreneur in Hebei Province" (河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

JOINT COMPANY SECRETARIES

Ms. CHENG Pik Yuk (鄭碧玉), aged 53, is a corporate services director of Tricor Services Limited, providing corporate secretarial services to client companies. Prior to joining the Tricor Group, she was a senior manager of the company secretarial department of Deloitte Touche Tohmatsu and also served as the departmental manager. Ms. Cheng has worked in the company secretarial departments of a number of international accounting firms and has over 25 years of experience in the company secretarial field. She has been providing corporate secretarial support services to listed companies and multi-national groups. Ms. Cheng is a fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries ("HKICS"), and is a holder of the Practitioner's Endorsement of the HKICS. She was appointed as a joint company secretary of our Company on February 10, 2011.

DIRECTORS AND SENIOR MANAGEMENT

Ms. ZHANG Shuman is our joint company secretary. For details regarding Ms. Zhang's experience, see "—Board of Directors—Executive Directors" above. Ms. Zhang has over three years of experience in corporate secretarial services. She acted as secretary to the board of directors of UMW Ace (L) Ltd. from 2003 to 2006. She was appointed as a joint company secretary of our Company on February 10, 2011.

BOARD COMMITTEES

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on February 28, 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duty of the audit committee of the Company is to review and supervise the financial reporting process and internal control systems of the Group. The audit committee of the Company consists of Mr. Wang Tao (汪濤), Mr. Wang Tao (王濤) and Mr. Lee Siang Chin. The audit committee of the Company is chaired by Mr. Lee Siang Chin.

Remuneration Committee

The Company established a remuneration committee on February 28, 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee of the Company include making recommendations to the Board on the Company's structure and policy for remuneration of Directors and senior management, reviewing the terms of remuneration packages, determining the award of bonuses. The remuneration committee of the Company consists of Mr. Yuan Pengbin (袁鵬斌), Mr. Wang Tao (王濤) and Mr. Lee Siang Chin. The remuneration committee of the Company is chaired by Mr. Yuan Pengbin.

Nomination Committee

The Company established a nomination committee on February 28, 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee of the Company include, without limitation, reviewing the structure, size and composition of the Board of Directors, assessing the independence of independent non-executive Directors and making recommendation to the Board on matters relating to the appointment of Directors. The nomination committee of the Company consists of Ms. Zhang Shuman (張姝嫻), Mr. Wang Tao (王濤) and Mr. Liu Qihua (劉奇華). The nomination committee of the Company is chaired by Ms. Zhang Shuman.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

All Directors receive reimbursements from our Company for expenses which are necessarily and reasonably incurred for providing services to our Company or executing matters in relation to the operations of our Company. Our executive Directors receive, in their capacity as our employees, compensation in the form of salaries, bonus, other allowances and benefits in kind, including our contribution to the pension scheme for our executive Directors. We determine our Directors' (including independent non-executive Directors) salaries based on each Director's qualification, position and seniority. Having considered the additional responsibilities of a Director for managing a listed company, the remuneration of our executive Directors is expected to increase to a reasonably higher level following the Listing.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which were paid to our Directors for the years ended December 31, 2008, 2009 and 2010 were approximately RMB 1.1 million, RMB 1.0 million and RMB 1.1 million, respectively.

The five individuals whose emoluments (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) were the highest in our

DIRECTORS AND SENIOR MANAGEMENT

Company for the year ended December 31, 2008, 2009 and 2010, included one, nil and nil Director, respectively. The aggregate amount of remuneration which were paid to the remaining individuals for the years ended December 31, 2008, 2009 and 2010 were approximately RMB 2.6 million, RMB 4.6 million and RMB5.2 million, respectively.

It is estimated that remuneration equivalent to approximately HK\$360,000 in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2011 under arrangements in force at the date of this prospectus.

No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the Track Record Period. Further information about the service contracts and letters of appointment entered into between the Company and the Directors is set out in the paragraph headed “Further information about Directors and substantial shareholders” in Appendix VI to this prospectus.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rules 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report to our financial results for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

SHARE CAPITAL

The following is a description of the authorized and issued Share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering.

	(Nominal value)
	HK\$
Authorized Share capital:	
3,000,000,000 Shares	300,000,000
Issued Share capital after Capitalization:	
1,200,000,000 Shares in issue after Capitalization	120,000,000
Shares to be issued pursuant to the Global Offering:	
400,000,000 Shares to be issued pursuant to the Global Offering	40,000,000
Total issued Share capital on completion of the Global Offering:	
1,600,000,000 Shares	160,000,000

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional but does not take into account the exercise of any options to be granted under the Pre-IPO Share Option Scheme or which may be issued or repurchased pursuant to the general mandate given to the Directors for issue and allotment of Shares referred to in Appendix VI to this prospectus or the repurchase mandate referred to in Appendix VI to this prospectus, as the case may be.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

PRE-IPO SHARE OPTION SCHEME

Our Company has conditionally adopted the Pre-IPO Share Option Scheme, the principal terms of which are set out in the section headed “Pre-IPO Share Option Scheme” in Appendix VI to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or the exercise of any options under the Pre-IPO Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders) with an aggregate nominal value of not more than the sum of:

- 320,000,000 Shares, representing 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue; and
- the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

SHARE CAPITAL

This general mandate to issue Shares will remain in effect until:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or
- it is varied or revoked by an ordinary resolution of our shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under "Written resolutions of our Company's shareholders passed on February 28, 2011" in Appendix VI to this prospectus.

REPURCHASE MANDATE

Conditional on the Global Offering becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all our powers to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than HK\$16,000,000 divided into 160,000,000 Shares, representing 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global Offering and the Capitalization Issue.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Written resolutions of our Company's shareholders passed on February 28, 2011" in Appendix VI to this prospectus.

The general mandate to repurchase Shares will remain in effect until:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or
- it is varied or revoked by an ordinary resolution of our shareholders in general meeting,

whichever is the earliest.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be taken up under the Global Offering, which may be allotted and issued pursuant to the exercise of the Pre-IPO Share Option Scheme, or which may be sold pursuant to the exercise of the Over-allotment Option, have beneficial interests or short positions in Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and are therefore regarded as substantial shareholders of our Company under the Listing Rules:

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares held after the Global Offering</u>	<u>Percentage of shareholding after the Global Offering</u>
<i>Substantial shareholders</i>			
Mr. Zhang	Beneficiary of Mr. Zhang's Trust	1,031,959,200	64.50%
Hilong Group Limited	Beneficial owner	1,031,959,200	64.50%
Standard Chartered Trust (Cayman) Limited	Trustee	1,143,960,000	71.50%

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and the Capitalization Issue (but without taking into account Shares to be sold pursuant to the exercise of the Over-allotment Option or option which may be granted under the Pre-IPO Share Option Scheme and without taking into account the arrangement under the Stock Borrowing Agreement), have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

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You should read this section in conjunction with our combined financial statements, including the notes thereto, as set forth in “Appendix I—Accountant’s Report.” Our financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States. This discussion contains forward-looking statements. There may be future events that we are unable to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

OVERVIEW

We are a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. We recently expanded into the oilfield services business with an initial focus on drilling services, which we expect to become an increasingly significant revenue stream in the future.

We have attained our leading market positions by focusing on building capabilities in key components of the drilling equipment value chain: steel pipes (which are the principal raw material in manufacturing drill pipes and are supplied from our joint venture), drill pipe products, coating materials and services as well as hardbanding materials and services. Furthermore, we believe these capabilities help us derive benefits such as better control over product quality, greater ability to expedite delivery and provision of one-stop after-sales services, which contribute to more attractive pricing and greater ability to maintain profit margin. We believe that the quality, deliverability, service and price of our products provide a unique value proposition for our clients and further contribute to our ability to maintain our leading market positions.

Our major customers include China’s largest oil and gas companies such as CNPC and Sinopec. We are also a qualified supplier to many of the major international oil and gas companies, including Schlumberger, Gazprom and Weatherford. In 2008, 2009 and 2010, to our knowledge of our customers’ information, sales to CNPC and its affiliates accounted for 44.4%, 28.6% and 25.5% of our revenue, respectively; sales to Sinopec and its affiliates accounted for 5.9%, 7.6% and 9.6% of our revenue, respectively; and sales to Schlumberger, Weatherford and Gazprom, directly and through distributors, in the aggregate accounted for 14.9%, 1.8% and 3.1% of our revenue, respectively. We have established overseas sales offices strategically located in some of the most active regions in the oil and gas industry, including Russia, the United Arab Emirates and Canada. As our recently established oilfield services business continues to gain momentum, we expect our profile and recognition in the international markets to continue to grow. We believe that the diversity of our customer base and the balanced mix between our PRC sales and international sales contribute to our ability to manage through industry cycles.

Our operating results during the Track Record Period have been affected by the recent global financial crisis and the resulting changes in oil and gas drilling activity levels. See “Risk Factors—Risks Relating to Our Business and Industry—The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations.” In addition, we entered coating business in 2002, drill pipe manufacturing business in 2005 and oilfield services business in 2008. As a result, we have a limited operating history for potential investors to evaluate our business prospects. See “Risk Factors—Risks Relating to Our Business and Industry—It is difficult to evaluate our results of operations and future prospects due to the significant fluctuation in our historical performance and our limited operating history.” In 2008, 2009 and 2010, our revenue totaled RMB1,701.4 million, RMB1,006.7 million and RMB1,356.5 million, respectively. In 2008, 2009 and 2010, our net profit totaled RMB495.4 million, RMB110.0 million and RMB229.9 million, respectively.

BASIS OF PRESENTATION

Our Controlling Shareholders owned and controlled the companies now comprising our Group before the Reorganization and continues to own and control these companies after the Reorganization. The combined balance sheets, combined income statements, combined statements of comprehensive income, combined

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statements of changes in equity and combined cash flow statements of our Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, or, as applicable, since its date of incorporation or the date when any company first became controlled by our Controlling Shareholders, whichever represents a shorter period, in a manner similar to the principles of merger accounting. All significant intra-group transactions and balances have been eliminated on combination.

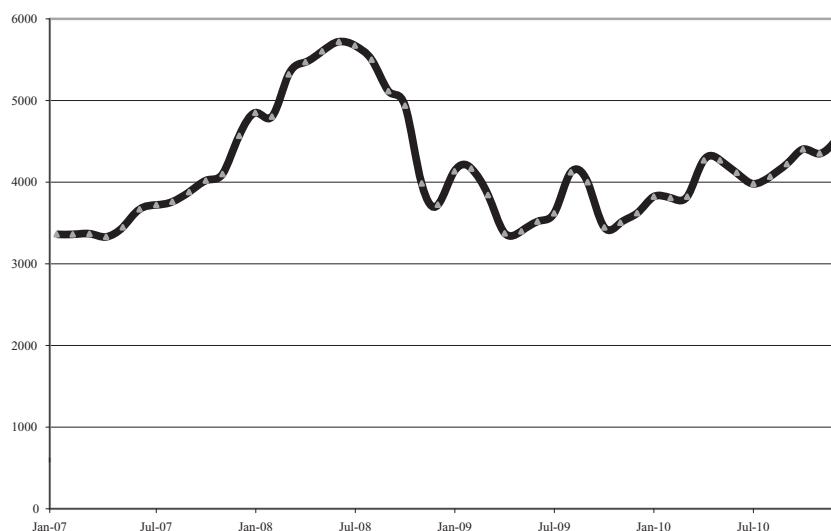
FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the most significant factors that affect our business and results of operations include:

- *Demand for oil and gas equipment and services in China and globally.* Demand for our products and services, including drill pipes and related products and coating materials and services, is significantly affected by, among other things, the level of oil and gas production activity in China and elsewhere in the world. The PRC and global demand for oil and gas directly affects the level of oil and gas production activity, which is in turn reflected in the number of PRC and worldwide oil and gas wells being drilled and completed. Any increase in oil prices could increase the level of capital expenditure by oil and gas companies and demand for oil and gas products and services. International oil and gas prices fluctuated significantly during the Track Record Period, which significantly affected our business and results of operations. For example, West Texas Intermediate spot price increased from US\$50 per barrel in January 2007 to an unprecedented high level of US\$145 per barrel in July 2008. Our revenue and profitability increased significantly from 2007 to 2008, due in part to the continued increase in oil and gas prices. West Texas Intermediate spot price decreased to US\$31 per barrel in December 2008 and then increased and stayed within the range of US\$33 to US\$82 per barrel in 2009. In 2009, our revenue and profitability decreased significantly, primarily reflecting the significant decrease in oil and gas prices since September 2008 as well as the market trends of global oil and gas prices in 2009. In addition, our turnover days of inventory and trade receivables also increased significantly in 2009. West Texas Intermediate spot price stayed within the range of US\$65 to US\$92 per barrel during 2010. See “Industry Overview—Global Oil and Gas Market” for more information on historical oil and gas prices. In addition, the depletion of conventional oil and gas reserves has increased demand for premium oil and gas production equipment that can operate in the harsh environment often found in non-conventional reserves.
- *Ability to increase utilization rate and expand capacity.* Our ability to increase revenue is significantly dependent on our ability to increase production and processing capacities and utilization rate. For example, from 2008 to 2009, we increased our capacity and utilization rates in providing oil and gas line pipe coating services. As a result, we were able to significantly increase revenue derived from provision of such services during the same period. Our utilization rate in the production of drill pipes and coating materials also increased in 2008. In addition, we have also experienced significant growth in our oilfield service business since we started this business in 2008, which was in line with our efforts to expand the operational scale of this business by adding three drilling rigs in 2009 and one drilling rig in 2010. Our future growth depends on our ability to continue to expand our production and service capacity.
- *Raw material prices.* Raw materials accounted for a significant majority of our cost of sales during the Track Record Period. The principal raw material for our drill pipes and related products production is steel pipes and other steel based components. The principal raw material for our coating materials and services is polyethylene and other petrochemicals. We primarily procure our raw materials in China, and the prices of raw material have historically fluctuated significantly. For example, steel price in China experienced continued growth since early 2007 until it reached the peak in mid 2008. Merchant steel bar spot price in China was RMB5,700 per ton in June 2008 according to CRU Steel Monitor. Since then, steel price in China started to decrease until late 2008 and early 2009, when it started to fluctuate with a general increasing trend. See below a diagram illustrating the historical fluctuation in steel prices during the Track Record Period. Historically, the changes in polyethylene price in China correlated with the changes in oil and gas prices.

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China Merchant Steel Bar spot price (in RMB per ton)



Source: CRU Steel Monitor

As a result, our cost of sales increased in 2008 and decreased in 2009, in part reflecting the fluctuation in steel and polyethylene prices in China during the same period. We may not be able to effectively pass on any increase in raw material costs to our customers. For example, because we generally sell products to large-scale oil and gas companies in China at fixed prices subject only to limited adjustments based on parties' negotiations during the annual term, the selling price of our products may not effectively reflect the fluctuation in raw material prices. We believe the fluctuation in raw materials prices will continue to impact our profitability.

- Product and service mix.* During the Track Record Period, our revenue was generated through three operating segments, i.e., drill pipes and related products segment, coating materials and services segment and since 2008, oilfield services segment. Revenue from any operating segment may fluctuate significantly from period to period, and these operating segments have historically yielded different gross margins. During the Track Record Period, the revenue and gross margin of our drill pipes and related products segment both experienced significant fluctuation. Revenue from coating materials and services segment increases from 2008 to 2009 but decreased in 2010, whilst the gross margin of this segment experienced continued increase during the Track Record Period. The revenue and gross margin of our oilfield services segment both experienced growth since we commenced this business in 2008. As a result, changes in percentage of revenue derived from, as well as the fluctuations in gross margin yielded from, each operating segment are expected to continue to affect our overall results of operations. In addition, we have from time to time purchased equipment and other products from third parties for the sale to clients of our oilfield services projects. These transactions, the value of which could be large, are likely to continue in the future. In addition, contract values of certain line pipe coating projects and oilfield services projects are large and a significant portion of our revenue from these business lines has historically been generated through a small number of contracts or engagements, which could contribute to the significant fluctuation in financial results from period to period. For example, in 2010, our revenue from oil and gas line pipe coating business decreased significantly, primarily reflecting a decrease in the revenue from West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, as the current phase of the project concluded in early 2010. Revenue generated from oilfield services segment as a percentage of our total revenue increased significantly from 5.3% in 2009 to 20.0% in 2010, reflecting, among other things, revenue derived from the sale of tubing and casing products, which we purchased from third parties, to an oilfield services client in Ecuador in 2010.
- Regulatory environment.* The oil and gas equipment manufacturing industry is subject to extensive regulation by the government, industry organizations and international standardization bodies. These

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regulations set forth requirements and standards for the manufacturing, functionality and safety performance of our products. Our adherence to such regulations and standards can be expensive, which can result in increased manufacturing, development and marketing costs. See “Risk Factors—Risks Relating to Our Business and Industry—The oil and gas equipment manufacturing industry is subject to regulation, and we may not successfully obtain and maintain the necessary regulatory permits, approvals or clearance for the production and sale of our products in certain markets.”

Our operating results during the Track Record Period have been affected by the recent global financial crisis and the resulting changes in oil and gas drilling activity levels. In addition, we are also subject to various other factors that affect our business and results of operations. As our historical performance experienced significant fluctuations during the Track Record Period, our historical operating results may not an indication of our future performance. We intend to continue to implement measures to address the fluctuations in financial results. In particular, we intend to:

- closely monitor the oil and gas prices as well as market demand for our products and services and actively adjust our capacity and resources accordingly;
- closely monitor our utilization rate and to continue to allocate financial resources to expand our production and service capacity should business opportunities arise;
- price our products to reflect the fluctuation in raw material prices to the extent possible. In addition, we may actively seek opportunities to vertically integrate into raw material supply through the technologies acquisitions or through business acquisition and alliance opportunities along our value chain to manage our raw material costs; and
- optimize our mix of products and services. We expect to continue closely monitoring the performance and profitability of each of our business line, actively adjusting our business operation and capacity allocation accordingly and actively competing for engagements with strong potential for revenue growth. We also intend to implement our key business strategy to further grow our business for the purposes of maximizing our overall profitability.

See “Business—Business Strategy” for more information.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of our combined financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting estimate or judgment is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the combined financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our combined financial statements and other disclosures included elsewhere in this prospectus.

Current Income Taxes and Deferred Tax

We are subject to income taxes in various jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax

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determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Useful Lives of Property, Plant and Equipment

We determine the estimated useful lives for our property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. We will revise the depreciation charges where useful lives are different from previously estimated, or write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment for Trade Receivables

The average credit period granted to our customers is between 30 to 270 days. We believe that delay in receiving payments from certain customers was mainly attributable to, among other things, unfavorable global market conditions for oil and gas industry, deteriorating liquidity position of our customers or delayed commencement of oil and gas exploratory or production activities due to various reasons beyond our control. Because there is no indication that the delay in payment constitutes a financing transaction, we did not recognize revenue by discounting the related receivable/received amount to its present value.

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability and time value of trade and other receivables. Significant judgment is required in assessing the ultimate realization of these receivables, including the past collection history of each counterparty, the current creditworthiness and the current market condition. Our major customers include PRC state-owned oil and gas companies, which accounted for a majority of our overdue receivables. Based on the prior dealing experience, current financial position of these customers and market conditions, we did not expect any loss from non-payment by these customers. As of each balance sheet date, we assessed time value of trade and other receivables based on the current expectation of the collection period, the difference between the carrying amount and the present value of the estimated future cash flows represented by such receivables is not significant. Accordingly, we did not provide additional impairment provision for such receivables.

Estimated Write-downs of Inventories

We write down inventories to net realizable value based on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realized. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

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DESCRIPTION OF SELECTED INCOME STATEMENTS LINE ITEMS

The following tables set forth a summary of our combined results of operations for the periods indicated. This information should be read together with our combined financial statements and related notes included elsewhere in this prospectus. The operating results in any period are not necessarily indicative of results that may be expected for any future period.

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Revenue	1,701,380	100.0	1,006,656	100.0	1,356,462	100.0
Cost of sales/services	(935,615)	(55.0)	(621,083)	(61.7)	(799,856)	(59.0)
Gross profit	765,765	45.0	385,573	38.3	556,606	41.0
Selling and marketing expenses	(88,820)	(5.2)	(82,684)	(8.2)	(79,026)	(5.8)
Administrative expenses	(109,503)	(6.4)	(138,103)	(13.7)	(172,210)	(12.7)
Other income	7,273	0.4	—	—	—	—
Other gains—net	853	0.1	2,760	0.2	15,085	1.1
Operating profit	575,568	33.8	167,546	16.6	320,455	23.6
Finance income	1,830	0.1	1,743	0.2	700	0.1
Finance costs	(15,177)	(0.9)	(19,699)	(2.0)	(30,476)	(2.2)
Share of results of associates	999	0.1	(353)	(0.0)	1,258	0.1
Share of profit of jointly controlled entities	(1,646)	(0.1)	(13,532)	(1.3)	(16,756)	(1.2)
Profit before income tax	561,574	33.0	135,705	13.5	275,181	20.3
Income tax expense	(66,142)	(3.9)	(25,689)	(2.6)	(45,275)	(3.3)
Profit for the year	495,432	29.1	110,016	10.9	229,906	16.9
Profit attributable to:						
Equity holders of the Company	437,290	N/A	60,627	N/A	178,369	N/A

Revenue

Our revenue represents the sales of drill pipes and related products, sales of coating materials and provision of coating services as well as provision of oilfield services, after elimination of inter-segment sales. Revenue is presented net of value-added tax, returns, rebates and discounts. Our revenue from the sales of goods, such as drill pipes, coating materials and related products, is recognized when the risk and reward of the goods has been transferred to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. With respect to sales with warranty arrangement, we recognize the amount represented by the retention money as revenue upon product delivery. Such amount is recorded as trade receivables until collected. Coating services revenue is recognized in the accounting period in which the services are rendered. Revenue from oilfield services, which may be provided on a day-rate contract basis or on a turnkey contract basis, is recognized under the percentage-of-completion method. Revenue from a day-rate contract is generally recognized on the basis of working hours performed as a percentage of total hours to be performed. Revenue from a turnkey contract is generally recognized based on the services performed to date as a percentage of total services to be performed. Any revision in the estimated revenue or cost as a result of change in circumstances is recorded during the period in which such circumstances become known to the management.

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Revenue by Business Segment

The following table sets forth our revenue by business segment for the periods indicated:

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Drill pipes and related products						
Drill pipes	1,205,940	70.9	414,637	41.1	633,797	46.7
Hardbanding	13,684	0.8	13,730	1.4	25,263	1.9
Equipment	18,006	1.1	34,093	3.4	970	0.1
Others	23,632	1.4	56,126	5.6	53,038	3.9
Subtotal	1,261,262	74.2	518,586	51.5	713,068	52.6
Coating materials and services						
Oil and gas line pipe coating	217,728	12.8	334,675	33.2	242,707	17.9
Drill pipe coating	192,461	11.3	80,618	8.0	78,740	5.8
Tubing casing coating	5,745	0.3	19,733	2.0	50,409	3.7
Subtotal	415,934	24.4	435,026	43.2	371,856	27.4
Oilfield services	24,184	1.4	53,044	5.3	271,538	20.0
Total revenue	1,701,380	100.0	1,006,656	100.0	1,356,462	100.0

Key characteristics of the revenue in our business segments include the following:

- *Drill pipes and related products.* Revenue from this segment primarily includes revenue from sales of drill pipes, hardbanding and other related products. From time to time, we also generate revenue from sales of coating equipments and provision of raw materials to our associates and jointly controlled entities. The drill pipes and related products segment has been historically, and we expect it to continue to be, among our largest segments in terms of revenue contribution. The significant fluctuation of our historical revenue derived from this segment primarily reflected the fluctuations in international oil and gas prices. The following table sets forth our sales volume, average selling price and revenue of sales of drill pipes in international and PRC market for the periods indicated.

	For the year ended December 31,		
	2008	2009	2010
International market			
Sales volume (tonnes)	17,120	3,961	10,550
Average selling price (RMB per tonne)	37,829	29,395	25,842
Revenue (thousands of RMB)	647,642	116,433	272,630
PRC market			
Sales volume (tonnes)	21,900	11,314	14,469
Average selling price (RMB per tonne)	25,493	26,357	24,961
Revenue (thousands of RMB)	558,298	298,204	361,167

- *Coating materials and services.* Revenue from coating materials and services segment primarily includes revenue from sales of coating materials and provision of coating services for oil and gas line pipes, as well as revenue from provisions of coating services for drill pipes. Revenue from our oil and gas line pipe coating materials and services has historically been affected by the number and the sales volume of line pipe projects in China in which we are involved. Revenue from our drill pipe coating services has historically been significantly affected by the level of capital spending by major oil and gas companies, reflecting the fluctuation in international oil and gas prices. Contract values of certain line pipe coating projects are large and a significant portion of our revenue from these business lines has historically been generated through a small number of contracts, which could contribute to the

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significant fluctuation in financial results from period to period. For example, in 2010, our revenue from oil and gas line pipe coating business decreased significantly, primarily reflecting a decrease in the revenue from West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, as the current phase of the project concluded in early 2010.

- *Oilfield services.* Revenue from oilfield services segment primarily includes revenue from provisions of drilling and engineering services. We entered into the oilfield services business in 2008. Contract values of our oilfield services engagements are generally large, and our revenue from this segment has historically been generated through a small number of engagements per year. Accordingly, the financial results of our oilfield services segment may fluctuate significantly from period to period. The significant increase in revenue from oilfield services in 2010 primarily reflected our provision of tubing and casing products we procured from third party manufacturers to an oilfield services client in Ecuador.

Revenue by Geographical Market

The following table sets forth our revenue by geographical location of our customer for the periods indicated.

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
China	1,045,955	61.5	847,583	84.2	778,903	57.4
South America	—	—	14,238	1.4	193,195	14.3
Russia and Central Asia	484,431	28.5	116,648	11.6	209,186	15.4
Middle East	58,800	3.5	10,052	1.0	99,876	7.4
North America	52,949	3.1	4,607	0.5	57,606	4.2
Others	59,245	3.4	13,528	1.3	17,696	1.3
Total revenue	1,701,380	100.0	1,006,656	100.0	1,356,462	100.0

During the Track Record Period, revenue from the drill pipes and related products segment was generated from both PRC and international markets. Revenue from the coating materials and services segment was derived primarily from the PRC market. Revenue from the oilfield services segment was primarily derived from the international market.

In 2009, our revenue derived from the international market as a percentage of our total revenue decreased significantly, primarily reflecting the impact of the global financial crisis as well as a decrease in the level of oil and gas production activities resulting from the lower oil and gas prices in 2009 compared to 2008. During the same period, revenue from sales of drill pipes and related products decreased significantly in the Russia and Central Asia market as well as other international markets. In 2010, our sales to South America increased significantly, resulting from our sale of tubing and casing products purchased from third parties to an oilfield services client in Ecuador. Our revenue from sales of drill pipes in the Middle East and from oilfield services in Russia and Central Asia also increased significantly.

Cost of Sales/Services

Our cost of sales primarily consists of costs for raw materials, labor costs, utilities charges and depreciation of fixed assets. In 2008, 2009 and 2010, our cost of sales represented 55.0%, 61.7% and 59.0% of our total revenue, respectively. Historically, costs for raw materials have been one of the largest components of our cost of sales.

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Selling and Marketing Expenses

Our selling and marketing expenses generally consist of transportation expenses, sales and marketing expenses and staff expenses. In 2008, 2009 and 2010, our selling and marketing expenses represented 5.2%, 8.2% and 5.8% of our total revenue, respectively.

Administrative Expenses

Our administrative expenses primarily consist of staff expenses, office and travel expenses, research and development expenses and depreciation of fixed assets. In 2008, 2009 and 2010, our administrative expenses represented 6.4%, 13.7% and 12.7% of our total revenue, respectively. Starting in 2011, we expect to incur additional expenses relating to our share option scheme. See Appendix VI—“Statutory and General Information—E. Pre IPO Share Option Scheme.”

Other Income

We held a non-controlling interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and Shanghai Boteng Welding Consumable Co., Ltd. until we acquired controlling interests in these entities in 2008. We recognized an “other income” of RMB7.3 million in remeasuring our existing equity interest in such entities in 2008, reflecting the difference between (i) the value of our equity interests held prior to such acquisition determined with reference to the purchase price of our additional equity interest, and (ii) the fair value of such equity interests (which was determined to be the net book value) in these entities, in each case at the time of our acquisition of the controlling equity interest.

Other Gains—Net

Our other gains or losses primarily consist of government grants, gains or losses on disposal of property, plant and equipments, negative goodwill recognized in connection with our acquisitions and exchange gains or losses.

Finance Income

Our finance income primarily consists of interest income on our bank deposits.

Finance Costs

Our finance costs primarily consist of interest expenses on bank borrowings.

Share of Results of Associates

Our share of results of associates primarily consists of our share of our associates’ results less any long-term receivables due from such associates. Historically, our associates included the following:

- *Coating services.* During the Track Record Period, we held interests in four associates engaging in provision of coating services businesses, including our investments in:
 - (i) Xi’an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.;
 - (ii) CNOOC Tube-Cote Tianjin Pipe Co., Ltd.;
 - (iii) Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.; and
 - (iv) Anshan Haidelong Anti-Corrosion Engineering Co., Ltd.
- *Manufacturing of special steel.* Our investments in Nantong Hilong Steel Pipe Co., Ltd., an associate engaging in manufacturing and distribution of special steel businesses.

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Share of Results of Jointly Controlled Entities

Our share of results of jointly controlled entities was recognized in connection with (i) our 49% equity interest in Almansoori Hilong Petroleum Pipe Company, an entity engaging in manufacturing of drill pipes and provision of drill pipe coating services businesses, and (ii) our 50% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd, an entity engaging in provision of coating services businesses.

Income Tax Expense

Our income tax provision in respect of operations in China has been calculated at the applicable tax rate on the estimated assessable profits pursuant to applicable laws and regulations, interpretations and practices. On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC, or the CIT Law, which became effective from January 1, 2008. Under the CIT Law, the corporate income tax rate applicable to our subsidiaries in China since January 1, 2008 is 25%.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the assets is realized or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of our subsidiaries in China.

Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. As a result, we need to withhold taxes on dividends distributed by our subsidiaries in China in respect of their earnings generated from January 1, 2008.

Certain subsidiaries of our Group enjoyed preferential income tax rates during the Track Record Period as foreign investment enterprises in China. In addition, three subsidiaries of our Group, namely, Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. and Shanghai Hilong Shine New Material Co., Ltd., have enjoyed preferential income tax rate of 15% since the year they are qualified as a new/high-technology enterprise. The following table sets forth the statutory income tax rate after taking into the effect of preferential tax treatment during the Track Record Period:

	Year ended December 31,		
	2008	2009	2010
Hilong Group of Companies Ltd.	—	12.5%	12.5%
Shanghai Hilong Drill Pipe Co., Ltd.	—	12.5%	12.5%
Hilong Drill Pipe (Wuxi) Co., Ltd.	12.5%	12.5%	12.5%
Jiangsu Hilong Drill Pipe Co., Ltd	25%	25%	25%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	15%	15%	15%
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	25%	15%	15%
Shanghai Hilong Shine New Material Co., Ltd.	12.5%	12.5%	15%
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	12.5%	25%	25%

Our effective tax rate for the years ended December 31, 2008 and 2009 and 2010 was 11.8%, 18.9% and 16.5%, respectively.

We believe that our intra-group transactions were conducted on fair and reasonable terms. We did not engage any third party professional adviser to conduct transfer-pricing review upon our intra-group transactions. We are not aware of any transfer-pricing related governmental audit or investigation conducted upon our Group. We believe that the likelihood for these transactions to be subject to any transfer-pricing related tax adjustment, fine or penalty by relevant tax authorities is remote.

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OUR RESULTS OF OPERATIONS

The following tables set forth our revenue and gross margin information by operating segment for the periods indicated. Such information should be read in conjunction with our audited combined financial statements and related notes included elsewhere in this prospectus.

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Revenue						
Drill pipes and related products	1,261,262	74.2%	518,586	51.5%	713,068	52.6
Coating materials and services	415,934	24.4	435,026	43.2	371,856	27.4
Oilfield services	24,184	1.4	53,044	5.3	271,538	20.0
Total	1,701,380	100.0%	1,006,656	100.0%	1,356,462	100.0

	For the year ended December 31,		
	2008	2009	2010
	Gross Profit Margin		
Drill pipes and related products	45.6%	31.9%	36.7%
Coating materials and services	44.4%	46.6%	50.3%
Oilfield services	27.3%	32.1%	39.8%
Overall gross margin	45.0%	38.3%	41.0%

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

Our revenue increased by RMB349.8 million, or 34.7%, from RMB1,006.7 million in 2009 to RMB1,356.5 million in 2010. Such increase primarily reflected an increase in revenue from oilfield services segment and, to a lesser extent, from drill pipes and related products segment, which was partially offset by a decrease in revenue from the coating materials and services segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment increased by RMB194.5 million, or 37.5%, from RMB518.6 million in 2009 to RMB713.1 million in 2010. Such increase primarily reflected an increase in revenue derived from sales of drill pipes and related products in the international market.

Revenue from sales of drill pipes and related products in the international market increased by RMB168.3 million, from RMB122.4 million in 2009 to RMB290.7 million in 2010. The increase primarily reflected a 166.3% increase in the volume of drill pipe products sold from 3,961 tonnes in 2009 to 10,550 tonnes in 2010, partially offset by a 12.1% decrease in average selling price of drill pipe products sold in the international market from RMB29,395 per tonne in 2009 to RMB25,842 per tonne in 2010. The increase in the sales volume primarily reflected an increased level of capital spending by international oil and gas companies in drilling activities as a result of the generally higher level of oil and gas prices in 2010 compared to 2009. A significant portion of the products sold in the international market in 2009 were delivered pursuant to sales contracts entered into in 2008, when the product prices were significantly higher. As a result, the average selling price of the products sold to the international market decreased in 2010.

Revenue from sales of drill pipes and related products in the PRC market increased by RMB26.2 million, or 6.6%, from RMB396.2 million in 2009 to RMB422.4 million in 2010. The increase primarily reflected an increase in revenue derived from sales of drill pipe products in China, partially offset by a decrease in revenue derived from sales of coating equipments to our associates. The increase in revenue derived from sales of drill pipes in China primarily reflected a 27.9% increase in volume of drill pipes sold in China from 11,314 tonnes in 2009 to 14,469 tonnes in 2010, reflecting an increased level of capital spending by oil and gas companies in China in drilling activities as a result of the generally higher level of oil and gas prices in 2010 compared to 2009.

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Coating materials and services. Revenue from the coating materials and services segment decreased by RMB63.2 million, or 14.5%, from RMB435.0 million in 2009 to RMB371.9 million in 2010. Such decrease primarily reflected a decrease in the revenue from oil and gas line pipe coating material and service businesses in China, partially offset by an increase in revenue from tubing casing coating business. The decrease in revenue from line pipe coating businesses in turn reflected a decrease in revenue from West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, as the current phase of the project concluded in early 2010. The increase in revenue from tubing casing tubing business primarily reflected an increase in demand for such business in the PRC market in 2010.

Oilfield services. Revenue from the oilfield services segment increased significantly by RMB218.5 million from RMB53.0 million in 2009 to RMB271.5 million in 2010. Such increase primarily reflected the increase in revenue derived from the sale of tubing and casing products purchased from third parties to an oilfield services client in Ecuador. The increase was also attributable to an oilfield services project in Kazakhstan from which we started to generate revenue during the last quarter of 2009.

Cost of Sales/Services

Our cost of sales increased by RMB178.8 million, or 28.8%, from RMB621.1 million in 2009 to RMB799.9 million in 2010. Such increase primarily reflected an increase in cost of raw materials in 2010, primarily reflecting our purchase of oil and gas tubing and casing products from third party manufacturers for the sale to an oilfield services client in Ecuador in 2010, coupled with the increase in cost of raw materials associated with the increase in revenue from our drill pipes and related products segment. The increase was partially offset by a decrease in cost of raw materials recognized in connection with our coating materials and services segment.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by RMB171.0 million, or 44.4%, from RMB385.6 million in 2009 to RMB556.6 million in 2010. Our gross margin increased from 38.3% in 2009 to 41.0% in 2010. The increase in gross margin primarily reflected the increase in gross margin from drill pipes and related products segment and oilfield services segment.

Gross margin of our drill pipes and related products segment increased from 31.9% in 2009 to 36.7% in 2010, reflecting (i) increasing economies of scale, as a significant portion of our cost of sales incurred in this segment, including staff costs, utility charges and depreciation of fixed assets remained relatively stable despite the increase in sales; and (ii) our increase in procurement of steel pipes from Nantong Hilong Steel Pipe Co., Ltd., our associated entity in which we own 41% of equity interest and which offers favorable pricing terms to us compared to other third party suppliers in 2010.

Gross margin for our coating materials and services segment increased from 46.6% in 2009 to 50.3% in 2010. The increase primarily reflected a higher percentage of revenue generated from drill pipe coating and tubing casing coating businesses, which historically yielded higher gross margins compared to oil and gas line pipe coating business. In addition, the gross margin yielded from our drill pipe coating business also increased in the last quarter of 2010.

Gross margin for our oilfield service segment increased from 32.1% in 2009 to 39.8% in 2010. The increase primarily reflected the higher gross margin yielded by the drilling and engineering services provided as our services projects progressed and more operating information became available in 2010. Our subsidiaries in Kazakhstan and Ecuador commenced commercial operation and started to generate revenue through the provision of oilfield services in 2009. The initial costs incurred during such ramp-up period also contributed to a lower gross margin in 2009 compared to 2010.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB3.7 million, or 4.4%, from RMB82.7 million in 2009 to RMB79.0 million in 2010. Such decrease primarily reflected a decrease in sales and marketing expenses incurred by our drill pipes and related products segment and a decrease in transportation expenses of our coating materials

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and services segment, partially offset by the increase in transportation expenses associated with our sales of oil and gas tubing and casing products to an oilfield client in Ecuador in 2010.

Administrative Expenses

Our administrative expenses increased by RMB34.1 million, or 24.7%, from RMB138.1 million in 2009 to RMB172.2 million in 2010. Such increase primarily reflected (i) an increase in expenses incurred in connection with the Global Offering, (ii) an increase in research and development expenses incurred in connection with our drill pipes and related products segment, and (iii) an increase in depreciation charges, staff costs and transportation expenses incurred in connection with the expansion of our oilfield services segment.

Other Gains—Net

We recognized a net gain of RMB2.8 million in 2009 and RMB15.1 million in 2010. The net gain recognized in 2010 primarily reflected (i) RMB8.0 million in government grants in relation to our new and high-technology projects, (ii) RMB5.4 million in negative goodwill (or the difference between the consideration and fair value of net asset acquired) recognized in connection with our acquisition of 45% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. in September 2010, and (iii) RMB3.0 million in changes in the fair value for Series A convertible preferred shares. The net gain recognized in 2009 primarily reflected RMB7.7 million in government grants in relation to our new and high-technology projects, partially offset by a net loss of RMB3.6 million in exchange losses and RMB1.5 million on disposal of property, plant and equipment.

Finance Income

Our finance income decreased by RMB1.0 million, or 59.8%, from RMB1.7 million in 2009 to RMB0.7 million in 2010. Such decrease primarily reflected an initial recognition of interest-free related party borrowings using effective interest method in 2009 as well as a decrease in balances of bank deposits in 2010.

Finance Costs

Our finance costs increased by RMB10.8 million, or 54.7%, from RMB19.7 million in 2009 to RMB30.5 million in 2010. Such increase primarily reflected (i) an increase in interest expenses on our bank borrowings in 2010, and (ii) An amortization of the liability component of Series A convertible preferred shares using effective interest method.

Share of Results of Associates

We recognized share of losses of associates of RMB0.4 million in 2009, compared to a share of profits of associates of RMB1.3 million in 2010, primarily reflecting an increase in profit of Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.

Share of Results of Jointly Controlled Entities

Our share of losses of jointly controlled entities increased by RMB3.2 million, or 23.8%, from RMB13.5 million in 2009 to RMB16.8 million in 2010. The increase reflected the increase in losses incurred by Almansoori Hilong Petroleum Pipe Company as it was in the process of ramping up its operations during the same period.

Profit before Income Tax

As a result of the foregoing, our profit before income tax increased from RMB135.7 million in 2009 to RMB275.2 million in 2010.

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Income Tax Expense

Our income tax expense increased by RMB19.6 million, or 76.2%, from RMB25.7 million in 2009 to RMB45.3 million in 2010. Such increase primarily reflected an increase in our profit before income tax. Our effective tax rate was approximately 18.9% in 2009 and 16.5% in 2010.

Profit for the Year

As a result of the foregoing, our net profit increased from RMB110.0 million in 2009 to RMB229.9 million in 2010.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue

Our revenue decreased by RMB694.7 million, or 40.8%, from RMB1,701.4 million in 2008 to RMB1,006.7 million in 2009. Such decrease primarily reflected a decrease in revenue from the drill pipes and related products segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment decreased by RMB742.7 million, or 58.9%, from RMB1,261.3 million in 2008 to RMB518.6 million in 2009. Such decrease primarily reflected a decrease in revenue derived from sales of drill pipes and related products in the international market and to a lesser extent, in the PRC market.

Revenue from sales of drill pipes and related products in the international market decreased by RMB525.2 million, or 81.1%, from RMB647.6 million in 2008 to RMB122.4 million in 2009. The decrease primarily reflected a 76.9% decrease in the volume from 17,120 tonnes in 2008 to 3,961 tonnes in 2009, and a 22.3% decrease in the average selling price from RMB37,829 per tonne in 2008 to RMB29,395 per tonne in 2009 of drill pipe products sold in the international market. The decrease in the sales volume primarily reflected a reduced level of capital spending by international oil and gas companies in drilling activities as a result of the significant fluctuation in and generally lower level of oil and gas prices in 2009, as well as the impact of the recent global financial crisis. The decrease in average selling price of the products sold to the international market primarily reflected a general decrease in oil and gas prices and related decrease in demand for drill pipe products in 2009.

Revenue from sales of drill pipes and related products in the PRC market decreased by RMB217.4 million, or 35.4%, from RMB613.6 million in 2008 to RMB396.2 million in 2009. This decrease primarily reflected a 48.3% decrease in the volume of drill pipe products sold in the PRC market from 21,900 tonnes in 2008 to 11,314 tonnes in 2009, which in turn reflected a reduced level of capital spending by PRC oil and gas companies as a result of the significant fluctuation and generally lower level of oil and gas prices in 2009.

Coating materials and services. Revenue from the coating materials and services segment increased by RMB19.1 million, or 4.6%, from RMB415.9 million in 2008 to RMB435.0 million in 2009. Such increase primarily reflected an increase in revenue from oil and gas line pipe coating services, partially offset by a decrease in revenue from drill pipe coating services. The increase in revenue from oil and gas line pipe coating services primarily reflected (i) revenue derived from our sales in 2009 related to the West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, and (ii) an increase in our capacity and utilization rate in providing line pipe coating services in 2009 coupled with a high demand for our services. The decrease in revenue from drill pipe coating services primarily reflected the decrease in level of capital spending by international oil and gas companies in drilling activities as a result of the significant fluctuation and the generally lower level of oil and gas prices in 2009, as well as the impact of the recent global financial crisis.

Oilfield services. Revenue from the oilfield services segment increased by RMB28.8 million from RMB24.2 million in 2008 to RMB53.0 million in 2009. Such increase primarily reflected revenue derived from two projects in Kazakhstan and one project in Ecuador. Our revenue from this operating segment in 2008 was

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primarily derived from trading of drilling-related products. In 2009, we purchased three additional drilling rigs which significantly increased our capacity in provision of oilfield services.

Cost of Sales/Services

Our cost of sales decreased by RMB314.5 million, or 33.6%, from RMB935.6 million in 2008 to RMB621.1 million in 2009. Such decrease primarily reflected a decrease in cost of raw materials incurred in connection with our drill pipes and related products segment in 2009, reflecting (i) the decrease in procurement volume of raw materials for our drill pipe and related products segment, which in turn reflected a decrease in sales generated from this segment, (ii) a general decrease in the market prices of steel in the PRC, and (iii) the commencement of our procurement of steel pipes from our associated entity, Nantong Hilong Steel Pipe Co., Ltd. in the second half of 2009.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit decreased by RMB380.2 million, or 49.6%, from RMB765.8 million in 2008 to RMB385.6 million in 2009. Our gross margin decreased from 45% in 2008 to 38.3% in 2009, primarily reflecting a decrease in gross margin derived from the drill pipes and related products segment, partially offset by an increase in the gross margin derived from the coating materials and services segment.

The gross margin of our drill pipes and related products segment decreased from 45.6% in 2008 to 31.9% in 2009, reflecting that (i) a significant portion of our cost of sales, including staff costs, utility charges and depreciation of fixed assets remained relatively stable, despite the decrease in sales in 2009 as a result of the impact of the recent global financial crisis and the significant fluctuation in oil, generally lower level of oil and gas prices in 2009; and (ii) the average selling price of drill pipe products sold in the international market decreased in 2009.

The gross margin of our coating materials and services segment increased from 44.4% in 2008 to 46.6% in 2009. The increase primarily reflected the increase in gross margin from the oil and gas line pipe coating service business, which in turn reflected a general decrease in the price of polyethylene, the major raw material for oil and gas line pipe coating as a result of the lower international oil and gas prices in 2009 compared to 2008.

The gross margin of our oilfield service segment increased from 27.3% in 2008 to 32.1% in 2009. Our revenue from this operating segment in 2008 was primarily derived from trading of drilling-related products, which yielded a relatively lower gross margin compared to our drilling and other oilfield services provided in 2009.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB6.1 million, or 6.9%, from RMB88.8 million in 2008 to RMB82.7 million in 2009. Such decrease primarily reflected a decrease in sales and marketing expenses and transportation expenses incurred in connection with our drill pipes and related products segment, which is associated with the decrease in sales. Such decrease was partially offset by an increase in staff related expenses in our drill pipe and related products segment, reflecting our increasing efforts of sales and marketing activities in this operating segment.

Administrative Expenses

Our administrative expenses increased by RMB28.6 million, or 26.1%, from RMB109.5 million in 2008 to RMB138.1 million in 2009. Such increase primarily reflected (i) an increase in the staff related expenses related to our oilfield services segment and oil and gas line pipe coating services segment, reflecting the increase in revenue from these segments in 2009, (ii) an increase in technological consulting expenses incurred in connection with our drill pipes and related products segment. Such increase was partially offset by a decrease in provision for impairment of trade receivables from 2008 to 2009.

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Other Income

We incurred other income of RMB7.3 million in 2008, reflecting gains on remeasuring our existing equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and Shanghai Boteng Welding Consumable Co., Ltd. held upon our acquisition of controlling interest in these entities in 2008.

Other Gains—Net

We recognized a net gain of RMB0.9 million in 2008, compared to a net gain of RMB2.8 million in 2009. The net gain recognized in 2009 primarily reflected RMB7.7 million in government grants in relation to our new/high-technology projects which was partially offset by RMB3.6 million in exchange losses and RMB1.5 million in net loss on disposal of property, plant and equipment. The net gain recognized in 2008 primarily reflected RMB2.0 million in government grants in relation to our new/high-technology projects, partially offset by RMB0.6 million in net loss on disposal of property, plant and equipment and RMB0.5 million in donation expenses.

Finance Income

Our finance income decreased by RMB0.1 million, or 5.6%, from RMB1.8 million in 2008 to RMB1.7 million in 2009. Such decrease primarily reflected a decrease in initial recognitions of interest-free related party borrowings using effective interest method in 2009.

Finance Costs

Our finance costs increased by RMB4.5 million, or 29.6%, from RMB15.2 million in 2008 to RMB19.7 million in 2009. Such increase primarily reflected an increase in interest expenses on our bank borrowings in 2009.

Share of Results of Associates

Our share of profits of associates was RMB1.0 million in 2008. Our share of losses of associates was RMB0.4 million in 2009.

Share of Results of Jointly Controlled Entities

Our share of losses of jointly controlled entities increased from RMB1.6 million in 2008 to RMB13.5 million in 2009, reflecting an increase in losses incurred by Almansoori Hilong Petroleum Pipe Company as it was in the process of ramping up its operations during the same periods.

Profit before Income Tax

As a result of the foregoing, our profit before income tax decreased by RMB425.9 million, or 75.8%, from RMB561.6 million in 2008 to RMB135.7 million in 2009.

Income Tax Expense

Our income tax expense decreased by RMB40.4 million, or 61.1%, from RMB66.1 million in 2008 to RMB25.7 million in 2009. Such decrease primarily reflected a decrease in our profit before income tax. Our effective tax rate was approximately 11.8% in 2008 and 18.9% in 2009.

Profit for the Year

As a result of the foregoing, our net profit decreased by RMB385.4 million, or 77.8%, from RMB495.4 million in 2008 to RMB110.0 million in 2009.

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DISCUSSION OF OUR STATEMENT OF FINANCIAL POSITION ITEMS

Inventories

Our inventories generally consist of raw materials, work-in-progress and finished goods, as well as packing materials and low value consumables. The following table sets forth the components of our inventory balances as of the dates indicated as well as our turnover of average inventory for the periods indicated.

	<u>As of and for the year ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In thousands of RMB, except number of days)		
Raw materials	133,142	136,377	135,118
Work in progress	70,872	33,332	54,581
Finished goods	118,341	157,001	166,791
Packing materials	353	521	452
Low value consumables	4,923	5,951	8,580
Total	<u>327,631</u>	<u>333,182</u>	<u>365,522</u>
Turnover days of inventory (in days) ⁽¹⁾	103	194	160

(1) Turnover day of inventory for a year equals average inventory divided by total cost of sales/services and then multiplied by 365.25 for each of years ended December 31, 2008, 2009 and 2010. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase in inventory turnover days from 2008 to 2009 reflected our high level of inventory balance as of December 31, 2009 compared to December 31, 2008, coupled with the decrease in recognized cost of sales associated with a decrease in sales in 2009. Our inventory remained at a relatively high level as of December 31, 2009, reflecting a significant decrease in sales since the last quarter of 2008, which in turn reflected, the onset of global financial crisis and the significant fluctuations in international oil and gas prices after July 2008. The decrease in inventory turnover days from 2009 to 2010 primarily reflected an increase in recognized cost of sales associated with an increase in sales in 2010. As of February 28, 2011, RMB132.7 million, or 33.0% of inventories recorded as of December 31, 2010 have been utilized.

In 2008, we recognized losses of RMB 30.0 million in respect of write-down of inventories to their net realizable value, which primarily reflected the decrease in realizable value of inventories which we prepared prior to the market downturn in August 2008 in anticipation of orders for premium drill pipe products, and a combination of a significant decrease in market price of and lower demand for premium drill pipe products during the downturn. The write-down of inventories also reflected the cancellation of orders for approximately 1,783 tonnes of drill pipes by customers in North America region and Russia and Central Asia region which were affected by the financial crisis. We did not seek contractual or other legal remedies for such order cancellations as we had maintained sound business relationships with these customers and the cancellation was the result of unexpected market turmoil beyond either party's control. Substantially all of such inventories prepared for the cancelled orders remained unutilized as of February 28, 2011, as we expect the demand for such inventories to increase in the near future.

We depend upon our forecasts of demand for our products and services to make decisions regarding investments of our resources and production levels of our products. See "Risk Factors—Risks Relating to Our Business and Industry—Any failure in accurately predicting product demand may result in high inventory balances and inventory turnover days, which could materially and adversely affect our business, financial condition and results of operations."

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Trade and Other Receivables

Our trade and other receivables consist of trade receivables (due from third parties and related parties), other receivables, bills receivable and prepayments. The following table sets forth the components of our trade and other receivables outstanding as of the dates indicated.

	As of December 31,		
	2008	2009	2010
(In thousands of RMB)			
Trade receivables			
Due from third parties	445,570	541,731	710,648
Due from related parties	58,601	80,277	55,025
Less: Provision for impairment of receivables	(11,442)	(11,522)	(11,033)
Trade receivables—net	<u>492,729</u>	<u>610,486</u>	<u>754,640</u>
Other receivables			
Due from third parties	35,406	31,440	39,199
Due from related parties	127,694	211,325	297,072
Other receivables	<u>163,100</u>	<u>242,765</u>	<u>336,271</u>
Bills receivable	53,314	16,370	5,727
Prepayments	<u>103,104</u>	<u>49,545</u>	<u>83,110</u>
Total	<u>812,247</u>	<u>919,166</u>	<u>1,179,748</u>

Trade Receivables Due From Third Parties and Related Parties

Our net trade receivables represent receivables from the sales of products and provision of services to third party customers and our related parties, less impairment of receivables. The following table sets forth an aging analysis of our trade receivables due from third party and related parties as of the dates and turnover days of our gross trade receivables for the periods indicated.

	As of and for the year ended December 31,		
	2008	2009	2010
(In thousands of RMB, except number of days)			
Within 90 days	229,095	329,987	444,062
Over 90 days and within 180 days	38,390	65,533	202,662
Over 180 days and within 360 days	167,814	104,964	50,981
Over 360 days and within 720 days	68,866	100,031	37,369
Over 720 days	<u>6</u>	<u>21,493</u>	<u>30,599</u>
Total	<u>504,171</u>	<u>622,008</u>	<u>765,673</u>
Turnover days of trade receivables ⁽¹⁾	<u>85</u>	<u>200</u>	<u>187</u>

(1) Turnover day of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365.25 for each of years ended December 31, 2008, 2009 and 2010. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

Our trade receivables turnover days were significantly higher in 2009 compared to 2008, reflecting (i) higher trade receivables balance in trade receivables resulting from the significant longer period of time our customers needed to settle their trade receivables, due to the tightening liquidity available to our customers affected by the global financial crisis and significant decreases in oil and gas prices in 2009, and (ii) a significant decrease in sales in 2009 compared to 2008. The average credit period we generally agree to with our third party customers is between 30 to 270 days. As of December 31, 2008, 2009 and 2010, trade receivables of RMB263.6 million, RMB280.5 million and RMB310.6 million, representing 52.3%, 45.1% and 40.6%, respectively, of our trade receivables before impairment remained unpaid beyond the allowed credit period but were not impaired, as

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these trade receivables were due from companies with sound credit history and trading records with our Company or due from our related party entities. As of the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables during the Track Record Period. We made provisions for impairment of trade receivables of RMB10.9 million and RMB0.1 million in 2008 and 2009, respectively. The significantly higher level of provisions in 2008 reflected the impact of global financial crisis upon certain of our international customers.

As of December 31, 2008, 2009 and 2010, trade receivables due from (i) our associated entities in which we do not hold controlling interest and (ii) our jointly-controlled entities collectively represented 23.1%, 59.4% and 90.1%, respectively, of our total trade receivables due from related parties. These receivable amounts primarily reflected (i) amounts due from Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd for our sale of coating materials; (ii) amounts due from Nantong Hilong Steel Pipe Co., Ltd for our sale of steel components; (iii) amounts due from Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd for our sale of coating equipments; and (iv) amounts due from Almansoori Hilong Petroleum Pipe Company for our sale of drill pipe components. As of the dates indicated and as of the Latest Practicable Date, we believe that there had been no material adverse change in these related parties' credit history affecting the collectibility of these trade receivables balances due from related parties. The remaining receivables due from related parties primarily represented amounts due from entities controlled by our Controlling Shareholders, which primarily reflected amounts due from (i) Beijing Huashi Hilong Oil Investment Co., Ltd. for our sale of hardbanding products, and (ii) Hilong USA, LLC. for our sale of drill pipe. See Note 36 to the Combined Financial Statements as set forth in the Accountant's Report in Appendix I of this prospectus for more information regarding our historical related party transactions during the Track Record Period. Such trade receivables due from entities controlled by our Controlling Shareholders were fully settled in February 2011.

As of February 28, 2011, we settled RMB220.9 million, or 29.3% of the trade receivables which were outstanding as of December 31, 2010. Of trade receivables that were outstanding and due over 360 days as of December 31, 2010, RMB9.5 million, or 16.7%, have been settled as of February 28, 2011. The remaining unsettled portion of trade receivables were mainly attributable to customers with sound credit history, good business relationship and strong bargaining power against us on the timing of receivable settlements. Based on our past experience, we believe that no additional provision for impairment is necessary in respect of these balances as there has not been any material adverse change in credit quality of these customers affecting the collectibility of the balances.

Other receivables

Our other receivables primarily consist of other receivables due from related party, receivables due from minority shareholders, staff advance and value added tax refund. The following table sets forth the components of our other receivables outstanding as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Due from related party	127,694	211,325	297,072
Staff advance	18,705	18,536	8,349
Value added tax refund	11,466	223	21,693
Others	5,235	12,681	9,157
Total	<u>163,100</u>	<u>242,765</u>	<u>336,271</u>

Other receivables due from related parties primarily include amounts due from entities controlled by our Controlling Shareholders. As of December 31, 2008, 2009 and 2010, 84.1%, 89.9% and 76.5%, respectively, of other receivables due from related parties were those due from entities controlled by our Controlling Shareholders. These amounts primarily represent payments collected by Huashi Hailong not yet paid to us. See "Business—Customers." All such other receivables due from entities controlled by our Controlling Shareholders were settled on March 2, 2011.

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Our staff advance represents cash advances to our staff for their travel expenses. Value added tax refund recognized as of December 31, 2008 and 2010 represented the refund receivable in connection our export of drilling equipments for our oilfield services segment.

Others

The higher balance of bills receivable balance as of December 31, 2008 reflected our higher revenue generated in 2008. As of December 31, 2008, 2009 and 2010, the aging of our bills receivable was within 180 days, which is consistent with their credit term.

Prepayments represent our prepayments made in connection with procurement of raw material. The lower balance of prepayments as of December 31, 2009 compared to December 31, 2008 and 2010 reflected our lower level of production activities due to a decrease in demand for our products as a result of the lower oil and gas prices and the impact of global financial crisis in 2009.

Trade and Other Payables

Our trade and other payables primarily consist of trade payables (due to third parties and related parties), other payables, bills payable, staff salaries and welfare payables, advance from customers, interest payable, accrued taxes other than income tax and dividends payable. The following table sets forth the components of our trade and other payables outstanding as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Trade payables			
Due to third parties	261,239	141,924	239,797
Due to related parties	61,452	60,132	41,256
Total trade payables	322,691	202,056	281,053
Other payables			
Due to third parties	55,333	39,004	67,759
Due to related parties	96,412	189,707	319,301
Total other payables	151,745	228,711	387,060
Bills payable	85,226	90,300	98,176
Staff salaries and welfare payables	9,497	12,173	10,098
Advance from customers	50,790	56,886	96,084
Interest payable	580	423	475
Accrued taxes other than income tax	2,134	23,026	23,820
Dividend payables	94,073	45,513	51,852
Others	8,464	3,696	4,804
Total	725,200	662,784	953,422

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Trade Payables Due To Third Parties and Related Parties

Our trade payables represent payables due to third party customers and our related parties. The following table sets forth an aging analysis of our trade payables due to third party and related parties as of the dates and turnover days of our trade payables for the periods indicated.

	As of and for the year ended December 31,		
	2008	2009	2010
	(In thousands of RMB, except number of days)		
Within 90 days	171,371	57,372	195,316
Over 90 days and within 180 days	19,433	24,127	26,855
Over 180 days and within 360 days	90,153	46,920	1,694
Over 360 days and within 720 days	37,160	39,242	5,411
Over 720 days	4,574	34,395	51,777
Total	<u>322,691</u>	<u>202,056</u>	<u>281,053</u>
Turnover days of trade payables ⁽¹⁾	106	154	110

(1) Turnover day of trade payables for a year equals average trade payables divided by cost of sales and then multiplied by 365.25 for each of years ended December 31, 2008, 2009 and 2010. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The decrease in balance of trade payables due to third parties from December 31, 2008 to December 31, 2009 reflected a decrease in our level of procurement of raw materials in 2009. The increase in balance of trade payables due to third parties from December 31, 2009 to December 31, 2010 reflected our increase in purchase of drilling rig and related equipments. The increase in trade payables turnover days from 2008 to 2009 primarily reflected a decrease in cost of sales recognized in 2009 associated with the decrease in sales compared to 2008, coupled with the increase in purchase of drilling rigs in 2009. The decrease in trade payables turnover days from 2009 to 2010 primarily reflected an increase in recognized cost of sales associated with an increase in sales in 2010.

As of December 31, 2008, 2009 and 2010, trade payables due to (i) our associated entities in which we do not hold controlling interest and (ii) our jointly-controlled entities collectively represented 15.8%, 0.8% and 8.2%, respectively, of our total trade payables due to related parties. These payable amounts primarily reflected (i) amounts due to CNOOC Tube-Cote Tianjin Pipe Co., Ltd. for our purchase of coating services; (ii) amounts due to Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. for our purchase of coating services; and (iii) amounts due to Nantong Hilong Steel Pipe Co., Ltd for our purchase of steel pipes. The remaining payables due to related party represented payables due to entities controlled by our Controlling Shareholders, which primarily represented amount due to Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. as a result of our purchase of hardbanding products. See Note 36 to the Combined Financial Statements as set forth in the Accountant's Report in Appendix I of this prospectus for more information regarding our historical related party transactions during the Track Record Period. Such trade payables due to entities controlled by our Controlling Shareholders were fully settled in February 2011.

Other Payables

Our other payables primarily consist of other payables due to third parties and other payables due to related parties. Other payables due to third parties primarily represented our accrued selling expenses and transportation expenses payable. Other payables due to related parties primarily represented our payables due to Hailong International (L) Ltd. and Huashi Hailong two entities controlled by our Controlling Shareholders, as a result of our corporate restructuring. All such other payables due to entities controlled by our Controlling Shareholders were settled in February 2011, other than RMB160.0 million of the payables due to Hailong International, which are expected to be settled using a portion of the proceeds from the Global Offering.

Others

The increase in balance of advances from customers as of December 31, 2010 compared to December 31, 2009 reflected the increase in sales of drill pipe products.

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Net Current Assets

Our current assets primarily consist of trade and other receivables, inventories, cash and cash equivalents and restricted cash. Our current liabilities primarily consist of trade and other payables, borrowings, deferred revenue and current income tax liabilities. As of December 31, 2008, 2009 and 2010, our net current assets amounted to RMB365.9 million, RMB316.3 million and RMB73.8 million, respectively.

Our net current assets decreased from RMB316.3 million as of December 31, 2009 to RMB73.8 million as of December 31, 2010, primarily reflecting increases in trade and other payables and current portion of our indebtedness during the same period. The increase in trade and other payables primarily reflected (i) an increase in other payables due to Hailong International as a result of our corporate restructuring, and (ii) an increase in trade payables due to independent third parties as a result of our increase in purchase of drilling rig and related equipments in connection with the development of our oilfield services business. See “—Discussion of Our Statement of Financial Position Items—Trade and Other Payables.” The increase in current portion of our indebtedness primarily reflected (i) our issuance of Series A convertible preferred shares in August 2010, and (ii) our bank borrowing of HK\$156 million from Standard Chartered Bank (Hong Kong) Limited by the end of 2010. See “—Indebtedness.”

The following table sets forth our current assets and current liabilities as of February 28, 2011:

	<u>As of February 28, 2011</u>
Current Assets	
Inventories	376,375
Trade and other receivables	1,192,634
Restricted cash	15,100
Cash and cash equivalents	107,833
Total	1,691,942
Current Liabilities	
Deferred revenue	405
Trade and other payables	870,137
Current income tax liabilities	8,736
Derivative financial instruments	133
Borrowings	780,542
Total	1,659,953
Net Current Assets	31,989

We have not in the past experienced any difficulties in renewing our bank facilities upon maturity or expiration, nor have we defaulted on any bank borrowings. We do not foresee any immediate repayment requirement for our bank borrowings or withdrawal or reduction in banking facilities on short notice that could have a material adverse impact upon our liquidity and net current assets position. In addition, we expect that our net current assets to increase substantially following the completion of the Global Offering. We believe that our cash-on-hand, cash generated from operating activities and additional bank borrowings, if necessary, will be adequate to finance our existing operations and meet the capital requirements for our future plans.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Working Capital

To date, our operations have primarily been financed through cash generated from operating activities and bank borrowings. Our cash expenditures primarily consist of funding of our working capital needs, acquisition of property, plant and equipment, repayment of bank borrowings and acquisition of subsidiaries in connection with our corporate restructuring and Reorganization in 2010. As of December 31, 2010, we had RMB246.9 million in cash and cash equivalents, compared to RMB141.6 million as of December 31, 2009 and RMB220.5 million as of December 31, 2008.

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The following table sets forth a summary of our cash flows for the periods indicated.

	For the year ended December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Net cash from (used in) operating activities	259,568	60,742	163,341
Net cash used in investing activities	(249,447)	(199,899)	(165,862)
Net cash (used in) from financing activities	143,267	61,145	108,391
Net increase (decrease) in cash and cash equivalents	153,388	(78,012)	105,870
Cash and cash equivalents at beginning of year	68,190	220,468	141,603
Cash and cash equivalents at end of year	220,468	141,603	246,936

Operating Activities

Net cash provided by operating activities in 2010 was RMB163.3 million, which was primarily attributable to (i) net profit of RMB229.9 million, (ii) increase in trade and other payables of RMB171.1 million and (iii) adjustment for depreciation of property, plant and equipment of RMB55.7 million; partially offset by an increase in trade and other receivables of RMB260.6 million.

Net cash provided by operating activities in 2009 was RMB60.7 million, which was primarily attributable to a net profit of RMB110.0 million and depreciation of property, plant and equipment of RMB46.5 million, partially offset by an increase in trade and other receivables of RMB106.9 million.

Net cash provided by operating activities in 2008 was RMB259.6 million, which was primarily attributable to (i) net profit of RMB495.4 million and (ii) an increase in trade and other payables of RMB67.2 million; partially offset by (i) an increase in trade and other receivables of RMB258.2 million and (ii) increase in inventories of RMB128.2 million.

Investing Activities

Net cash used in investing activities in 2010 was RMB165.9 million, which was primarily attributable to RMB144.7 million in purchase of property, plant and equipment.

Net cash used in investing activities in 2009 was RMB199.9 million, which primarily reflected RMB196.1 million in purchase of property, plant and equipment.

Net cash used in investing activities in 2008 was RMB249.4 million, which primarily reflected RMB210.6 million in purchase of property, plant and equipment.

Financing Activities

Net cash provided by financing activities in 2010 was RMB108.4 million, primarily reflecting RMB852.4 million in proceeds from borrowings, partially offset by (i) RMB490.8 million in repayments of borrowings and (ii) RMB235.4 million in consideration paid in connection with our corporate reorganization in 2010.

Net cash generated from financing activities in 2009 was RMB61.1 million, primarily reflecting RMB548.5 million in proceeds from borrowings, partially offset by RMB422.3 million in repayments of borrowings and RMB63.8 million in dividends paid.

Net cash generated from financing activities in 2008 was RMB143.3 million, primarily reflecting (i) RMB363.7 million in proceeds from borrowings, and (ii) RMB48.3 million in our Controlling Shareholder's capital contributions; partially offset by (i) RMB223.2 million in repayments of borrowings, and (ii) RMB40.2 million in dividends paid.

CAPITAL EXPENDITURE

Our capital expenditures were RMB210.6 million, RMB196.1 million and RMB144.7 million in 2008, 2009 and 2010, respectively. Our capital expenditures in 2008 were primarily made in connection with the

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construction of our headquarters in Shanghai and our production facilities and equipments for drill pipes and related products segment. Our capital expenditures in 2009 were primarily made in connection with our purchase of drilling rigs for our oilfield services segment. Our capital expenditures in 2010 were primarily made in connection with our purchase of drilling rig and related equipments and construction of production facilities in Shanghai.

INDEBTEDNESS

As of December 31, 2010, we had outstanding indebtedness of RMB804.6 million. The following table sets forth components of our indebtedness as of the dates indicated.

	As of December 31,			As of
	2008	2009	2010	February 28, 2011
	(In thousands of RMB)			
Non-current				
Bank borrowing—unsecured	15,300	10,600	5,900	—
Related party borrowing	5,112	11,796	10,565	10,450
Less: Current portion of non-current borrowing	(4,700)	(10,318)	(15,265)	(10,450)
Current				
Bank borrowings—secured	159,519	264,000	401,758	400,654
Bank borrowing—unsecured	132,000	152,000	217,000	197,900
Series A convertible preferred shares	—	—	169,401	171,538
Current portion of non-current borrowing	4,700	10,318	15,265	10,450
Total	311,931	438,396	804,624	780,542

Pursuant to a facility agreement dated December 27, 2010, we obtained a bank borrowing of HK\$156 million with an interest rate of HIBOR plus 5% from Standard Chartered Bank (Hong Kong) Limited, an affiliate of Standard Chartered. Hilong Group Limited, one of our Controlling Shareholders, pledged 200,000 Shares of our Company (representing 20% of our issued share capital before Capitalization Issue and the Global Offering) to the lender in connection with such bank borrowing, which pledge will be released prior to the Listing Date. In addition, we expect to repay such bank borrowing using the proceeds from the Global Offering. See “Use of Proceeds.”

Our Directors confirm that, as of February 28, 2011, the most recent practicable date for the purposes of this confirmation, there has been no change in our indebtedness since December 31, 2010 other than disclosed above.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

We lease various buildings under non-cancellable operating lease agreements. The following table sets forth the future aggregate minimum lease payments under such operating leases as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(In thousands of RMB)		
No later than 1 year	3,662	3,544	4,176
Later than 1 year and no later than 3 years	4,059	3,789	5,249
Later than 3 years	13,504	11,723	10,020
Total	21,225	19,056	19,445

As of December 31, 2008, 2009 and 2010, we did not have any significant contingent liability. As of February 28, 2011, the most recent practicable date for the purposes of this confirmation, we did not have any material change in our contractual obligations or contingent liabilities since December 31, 2010. Except as disclosed in this prospectus, as of the Latest Practicable Date, and other than intra-group liabilities, we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances or other similar indebtedness,

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debentures, mortgages, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

CAPITAL COMMITMENTS

Our capital commitments as of December 31, 2008 and 2009 and 2010 primarily related to the purchases of property, plant and equipment. The following table sets forth the aggregate amounts of capital commitments as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Property, plant and equipment	165,732	143,109	65,918

OFF-BALANCE SHEET AGREEMENT

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our major financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. The risk associated with these financial instruments and the policies on how we mitigate these risks are set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign Exchange Risk

We mainly operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi into foreign currencies, including the U.S. dollar, has been based on rates set by the People's Bank of China. 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 this policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 25.4% appreciation of the Renminbi against the US dollar from July 21, 2005 to December 31, 2010. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against USD. We have not entered into any hedge transaction against any fluctuation in foreign currency. We may consider entering into currency hedging transactions to further manage our exposure towards fluctuations in exchange rates. However, the effectiveness of such transactions may be limited. See "Risk Factors—Risks Relating to the PRC—Fluctuations in exchange rate may have a material adverse effect on your investment." In 2008, 2009 and 2010, our revenue denominated in U.S. dollar represented 36.1%, 12.2% and 36.0%, respectively, of our total revenue.

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As of December 31, 2008, 2009 and 2010, if USD had strengthened or weakened by 10% against Renminbi, assuming all other relevant variables remained unchanged, our net profit for each year would have changed primarily as a result of foreign exchange gains/losses on translation of RMB and USD denominated cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings. The following table sets forth the effect of such change:

	Year ended December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Year ended:			
Net profit increase/(decrease)			
Strengthened 10%	6,082	(3,053)	(2,143)
Weakened 10%	(6,082)	3,053	2,143

To the extent that we need to convert U.S. dollar we receive from the Global Offering into Renminbi for our operations, appreciation of the Renminbi against the USD would reduce the Renminbi amount we expect to receive upon such conversion.

Interest Rate Risk

We do not have any significant interest-bearing assets other than cash and cash equivalents and restricted cash. Our income and operating cash flows are substantially independent of changes in market interest rates. Our interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose us to cash flow interest-rate risk. Borrowings obtained at fixed rates expose us to fair value interest-rate risk. We have not entered into any hedge transaction against such cash flow and fair value interest-rate risk. As of December 31, 2008, 2009 and 2010, if the interest rate on borrowings had been higher or lower by 5%, the net profit for each year would have changed primarily as a result of higher or lower interest expenses on floating rate borrowings.

The following table sets forth the details of such changes:

	Year ended December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Year ended:			
Net profit increase/(decrease)			
Higher 5%	(1,305)	(1,629)	(1,068)
Lower 5%	1,305	1,629	1,068

Credit Risk

As of December 31, 2008, 2009 and 2010, all of our cash and cash equivalents, including restricted cash, were deposited in major financial institutions in the PRC, which we believe are of high credit quality. We do not expect any losses from non-performance by these counterparties.

We have established policies to ensure that sales of products are made to customers with an appropriate credit history and we assess the credit worthiness and financial strength of our customers as well as considering prior dealing history with the customers and volume of sales. Our management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

Liquidity Risk

We seek to maintain sufficient cash and sources of funding through committed credit facility and to maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, we monitor

FINANCIAL INFORMATION

rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. We expect to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions and proceeds from the Global Offering.

RECENT ACCOUNTING PRONOUNCEMENTS

Up to the date of the prospectus, the HKICPA has issued the following new standards, amendments and interpretations which are relevant to our operation but are not yet effective for the annual accounting period beginning January 1, 2011 and we have not early adopted these standards, amendments and interpretations:

	<u>Effective for annual periods beginning on or after</u>
HKAS 24 (Revised) Related party disclosures	January 1, 2011
HK(IFRIC)—Int 19 Extinguishing financial liabilities with equity instruments	January 1, 2011
Third improvements to Hong Kong Financial Reporting Standards (2010)	January 1, 2011
HKFRS 9 Financial Instruments	January 1, 2013

We are in the process of making assessments of the impact of these standards, amendments and interpretations on our financial statements in the initial application. The adoption of the above is not expected to have any material effect on our operating results or financial position.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, other than the pledge over Shares held by Hilong Group Limited in connection with our bank borrowing from Standard Chartered Bank (Hong Kong) Limited, which will be released prior to the Listing Date as disclosed in “—Indebtedness,” there were no circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted net tangible assets as of December 31, 2010 amounted to approximately RMB1,585.3 million (approximately HK\$1,863.1 million) (assuming an Offer Price of HK\$2.89 per Offer Share, being the mid-point of the indicative Offer Price range). The unaudited pro forma adjusted net tangible assets information prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purposes only, and is presented to illustrate the effect of the Global Offering on our combined net tangible assets as of December 31, 2010 as if the Global Offering had taken place on such date. It was adjusted on the basis as described in Appendix II. See Appendix II to this prospectus.

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PROPERTY VALUATION

The Property Valuer has valued our property interests as of February 28, 2011. See Appendix III to this prospectus. The table below sets forth the reconciliation of the net book value of our property interests as of December 31, 2010, as included in our audited combined financial statements in Appendix I to this prospectus, to the capital value of our property interests as of February 28, 2011, as included in the property valuation report in Appendix III to this prospectus:

	<u>RMB in thousand</u>
Net book value of property interests as of December 31, 2010 (audited) ⁽¹⁾	227,604
Movements from December 31, 2010 to February 28, 2011 (unaudited)	29,535
Net book value of property interests as of February 28, 2011 (unaudited)	257,139
Less: Net book value of properties—Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. ⁽²⁾ (unaudited)	(6,207)
Less: Net book value of land use right—Sichuan Hilong Petroleum Technology Co., Ltd. ⁽³⁾ (unaudited)	(4,758)
Valuation surplus	54,352
Capital value of property interests as of February 28, 2011 ⁽⁴⁾	300,526

(1) As of December 31, 2010, the net book value of property interests represented net book amount of buildings and facilities of RMB171,816 thousand and net book value of lease prepayments of RMB55,788 thousand. See Notes 7 and 8 to the Accountant's Report included in Appendix I to this prospectus.

(2) As of February 28, 2011, we incurred and recorded capital expenditure of RMB6.2 million for purposes of constructing the properties in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. Since the land use right to the related land is held by our joint venture partner as of February, 2011, no valuation was performed for such properties by the Property Valuer.

(3) As of February 28, 2011, we incurred and recorded capital expenditure of RMB4.8 million for purposes of obtaining the land use right with respect to a parcel of land at Sichuan Hilong Petroleum Technology Co., Ltd. Since we did not obtain the land use right to such land as of February 2011, no valuation was performed by the Property Valuer.

(4) Consisting of (i) RMB187,047 thousand in capital value of property interests with respect to properties with valid title certificates as of February 28, 2011, and (ii) RMB113,479 thousand in capital value of property interests with respect to properties without valid title certificates as of February 28, 2011. The Property Valuer attributed no commercial value to the properties without valid title certificates. However, for reference purpose, the Property Valuer is of the opinion that the capital value of the properties as of the date of valuation would be RMB113,479 thousand assuming all relevant title certificates have been obtained and the properties are freely transferable. For more information on such capital value, see (i) Note 4 to the Valuation Certificate of Property No. 1 (RMB57,970 thousand), (ii) Note 2 to the Valuation Certificate of Property No. 2 (RMB13,704 thousand), (iii) Note 3 to the Valuation Certificate of Property No. 3 (RMB254 thousand) and (iv) Note 2 to the Valuation Certificate of Property No. 4 (RMB41,551 thousand) included in property valuation report included in Appendix III to this prospectus.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to the Group, including the internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering, the Directors of the Company are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

As of December 31, 2010, the Company did not have any distributable reserves as it did not have any business other than investment holding and the Reorganization was not completed.

DIVIDENDS

We declared dividends in the amount of RMB108.3 million, RMB9.0 million and RMB10.0 million in 2008, 2009 and 2010, respectively.

We will not declare or pay any dividends other than from distributable profit attributable to equity holders. Our shareholders may approve the distribution of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends

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as appear to our Directors to be justified by our profits and may also declare half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of dividends.

The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our articles of association, the Companies Law, applicable laws and regulations and other relevant factors.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since December 31, 2010. Our Directors confirm that they have performed sufficient due diligence on us to ensure that, at the date of this prospectus, there has been no material adverse change in our financial position or prospects since December 31, 2010 and there is no event since December 31, 2010 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see “Business—Business Strategy” for further details of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$2.89 per Share, which represents the mid-point of the proposed Offer Price range of HK\$2.50 to HK\$3.27 per Share, will be approximately HK\$1,074 million. In the event that the Offer Price is determined at the low end and high end of the indicative Offer Price range, the net proceeds from the issue of new Shares will be approximately HK\$925 million and HK\$1,224 million, respectively. Based on an Offer Price of HK\$2.89 per Share (being the midpoint of the Offer Price range), we currently intend to apply these net proceeds for the following purposes:

- approximately 27%, or HK\$290 million, for the expansion of our coating materials and services business, including
 - approximately 13%, or HK\$143 million, for the construction of line pipe coating services plants in the PRC;
 - approximately 11%, or HK\$117 million, for the construction of OCTG coating services plants overseas; and
 - approximately 3%, or HK\$29 million, for the expansion and upgrade of production capacity for coating materials;

we expect approximately 14%, or HK\$147 million, to be applied by the end of 2011 and the remaining 12% to be applied in 2012;

- approximately 21%, or HK\$223 million, for the expansion of our oilfield services business, including payments towards purchases of drilling rigs. We expect all of the net proceeds in this category to be applied by the end of 2012;
- approximately 20%, or HK\$211 million, for the repayment of bank borrowings, including a principal of HK\$156 million with interest rate of HIBOR plus 5% and a maturity date on the earlier of (i) the redemption of the equity interest of UMW and (ii) the listing of our Company;
- approximately 17%, or HK\$188 million, for the repayment of outstanding balances due to related parties;
- approximately 11%, or HK\$118 million, for upgrading of production capacity for our drill pipes
 - approximately 6%, or HK\$64 million, for upgrading of existing drill pipe production lines to improve production efficiency and to develop production capabilities in high-end products;
 - approximately 5%, or HK\$54 million, for development of production capabilities in “intelligent” drill pipes;

we expect approximately 6%, or HK\$64 million, to be applied by the end of 2011 and the remaining 5% to be applied in the first half of 2012; and

- approximately 4%, or HK\$45 million, for working capital and general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

For more information on our planned production capacity and rig count after the Global Offering, see “Business—Business Strategy.”

If the Offer Price is set above the mid-point of the proposed Offer Price range, we intend to apply the additional amounts towards the expansion of our oilfield services segment, merger and acquisition activities and repayment of bank borrowings. If the Offer Price is set below the mid-point of the proposed Offer Price range, we intend to reduce the amounts allocated to the repayment of bank borrowings and the upgrading of production capacity for drill pipes. To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into our accounts with licensed financial institutions.

Hilong Group Limited, one of our Controlling Shareholder, (in such capacity, the “Selling Shareholder”) will be selling a portion of its Shares pursuant to the exercise of the Over-allotment Option by the Sole Global Coordinator on behalf of the International Underwriters, after consultation with the Joint Bookrunners as part of the Global Offering. If the Over-allotment Option is exercised in full, we estimate that the aggregate net proceeds to the Selling Shareholder from the Global Offering (after deducting underwriting commissions and estimated expenses payable by it in connection with the Global Offering), assuming an Offer Price of HK\$2.89 per Share, will be approximately HK\$168 million. In the event that the Offer Price is determined at the low end and high end of the indicative Offer Price range, assuming a full exercise of the Over-allotment Option, the net proceeds to the Selling Shareholder from the Global Offering will be approximately HK\$146 million and HK\$190 million, respectively. We will not receive any of the proceeds from the sale of Shares by the Selling Shareholder in the Global Offering.

AVIC-CCBI AVIATION INDUSTRY INVESTMENT FUND, L.P.

On March 30, 2011, we entered into a cornerstone placing agreement with AVIC-CCBI Aviation Industry Investment Fund, L.P. (“AVIC-CCBI Fund”) and the Joint Bookrunners. Pursuant to the agreement, AVIC-CCBI Fund agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 1000 Shares) as may be purchased with an amount of US\$20 million at the Offer Price. Assuming an Offer Price of HK\$2.89 (being the mid-point of the proposed range of the Offer Price for the Global Offering) and based on the exchange rate of U.S. dollars to HK dollars at US\$1.0000 to HK\$7.7931 (being the noon buying rate for the U.S. dollar in New York City for cable transfers in Hong Kong dollars as certified for customs purposes by the H.10 weekly statistical release of the Federal Reserve Board as of March 25, 2011), AVIC-CCBI Fund is expected to subscribe for 53,931,488 Offer Shares, representing approximately (i) 3.4% of the Shares in issue and outstanding immediately upon the completion of the Global Offering and (ii) 13.5% of the total number of Offer Shares. The actual number of Shares subscribed for by AVIC-CCBI Fund is expected to be disclosed in our announcement of the results of allocations of the Public Offering. AVIC-CCBI Fund is an independent third party not connected with us and will not be a substantial shareholder of our Company upon Listing and during the six-month lock-up period as described below.

The cornerstone investment forms part of the International Offering. AVIC-CCBI Fund will not subscribe for any Offer Shares under the Global Offering other than pursuant to the cornerstone placing agreement. The Offer Shares to be subscribed for by AVIC-CCBI Fund will rank *pari passu* in all respects with the fully paid Shares in issue and will be counted towards the public float of our Company. AVIC-CCBI Fund does not have a representative on our Board. The Offer Shares to be subscribed for by AVIC-CCBI Fund will not be affected by any reallocation of the Offer Shares between the International Offering and the Public Offering in the event of over-subscription under the Public Offering as described in “Structure of the Global Offering—The Hong Kong Public Offering” of the prospectus. AVIC-CCBI Fund has agreed that, without the prior written consent of the Company and the Joint Bookrunners, it will not, whether directly or indirectly, at any time during the period of six months from the Listing Date, dispose of any Shares subscribed for pursuant to the cornerstone placing agreement or any securities convertible into or exchangeable for such Shares, or enter into any swap or other arrangement that transfers to others, in whole or in part, any of the economic consequences of the ownership of the Shares subscribed by AVIC-CCBI Fund.

AVIC-CCBI Fund also agreed that, the aggregate holding by itself, its subsidiary and associates (as defined in the Listing Rules) in our total issued share capital shall be less than 10% of our entire issued share capital at all times. Upon the request by us and/or the Joint Bookrunners, AVIC-CCBI Fund will provide reasonable evidence to us and the Joint Bookrunners showing that its holding of our share capital is on a proprietary investment basis.

The subscription obligation of the Cornerstone Investor is conditional upon, among other things, (a) the Public Offer Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and all of the conditions precedent to completion set forth therein having been satisfied in accordance with their respective original terms (or as subsequently waived by the relevant parties thereto) by no later than the respective time and date specified therein; (b) the Offer Price having been agreed by the Joint Bookrunners (on behalf of the Underwriters) and us in connection with the Global Offering; (c) neither of the Public Offer Underwriting Agreement and the International Underwriting Agreement having been terminated in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto; (d) the Listing Committee of the Stock Exchange having granted or agreeing to grant the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange; (e) no statute, rule or regulation having been enacted or promulgated by any governmental authority which prohibits the consummation of the closing of the cornerstone placing agreement and there being no order or injunction of a court of competent jurisdiction in effect precluding or prohibiting consummation of the closing of the cornerstone placing agreement; and (f) the respective representations, warranties and confirmations of AVIC-CCBI Fund and us in the cornerstone placing agreement are accurate.

AVIC-CCBI Fund is an investment fund established in the Cayman Islands as an exempted limited partnership and its primary objective is to invest in portfolio companies involving in the manufacturing of advanced avionics, air traffic control systems and equipment and high-tech equipment manufacturing related

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industries, and in such other portfolio companies as may be determined by the general partner. AVIC-CCBI Aviation Industry Investment Fund GP Limited, which is owned as to 50% by CCB International Asset Management Limited and as to the remaining 50% by Future Aviation International Investment Company Limited, is the general partner and is responsible for the management of the operations of AVIC-CCBI Fund.

CHEERFUL LINK HOLDINGS LIMITED

On April 6, 2011, we entered into a cornerstone placing agreement with Cheerful Link Holdings Limited, a wholly owned subsidiary of Yung's Enterprise Holdings Limited ("Yung's Enterprise"), and the Joint Bookrunners. Pursuant to the agreement, Cheerful Link Holdings Limited agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) as may be purchased with an amount of US\$10 million at the Offer Price. Assuming an Offer Price of HK\$2.89 (being the mid-point of the proposed range of the Offer Price for the Global Offering) and based on the exchange rate of U.S. dollars to HK dollars at US\$1.0000 to HK\$7.7784 (being the noon buying rate for the U.S. dollar in New York City for cable transfers in Hong Kong dollars as certified for customs purposes by the H.10 weekly statistical release of the Federal Reserve Board as of April 1, 2011), Cheerful Link Holdings Limited is expected to subscribe for 26,965,744 Offer Shares, representing approximately (i) 1.7% of the Shares in issue and outstanding immediately upon the completion of the Global Offering and (ii) 6.7% of the total number of Offer Shares. The actual number of Shares subscribed for by Cheerful Link Holdings Limited is expected to be disclosed in our announcement of the results of allocations of the Public Offering. Cheerful Link Holdings Limited is an independent third party not connected with us and will not be a substantial shareholder of our Company upon Listing and during the six-month lock-up period as described below.

The cornerstone investment forms part of the International Offering. Cheerful Link Holdings Limited will not subscribe for any Offer Shares under the Global Offering other than pursuant to the cornerstone placing agreement. The Offer Shares to be subscribed for by Cheerful Link Holdings Limited will rank *pari passu* in all respects with the fully paid Shares in issue and will be counted towards the public float of our Company. Cheerful Link Holdings Limited does not have a representative on our Board. The Offer Shares to be subscribed for by Cheerful Link Holdings Limited will not be affected by any reallocation of the Offer Shares between the International Offering and the Public Offering in the event of over-subscription under the Public Offering as described in "Structure of the Global Offering—The Hong Kong Public Offering" of the prospectus. Cheerful Link Holdings Limited has agreed that, without the prior written consent of the Company and the Joint Bookrunners, it will not, whether directly or indirectly, at any time during the period of six months from the Listing Date, dispose of any Shares subscribed for pursuant to the cornerstone placing agreement or any securities convertible into or exchangeable for such Shares, or enter into any swap or other arrangement that transfers to others, in whole or in part, any of the economic consequences of the ownership of the Shares subscribed by Cheerful Link Holdings Limited.

Cheerful Link Holdings Limited also agreed that, the aggregate holding by itself, its subsidiary and associates (as defined in the Listing Rules) in our total issued share capital shall be less than 10% of our entire issued share capital at all times. Upon the request by us and/or the Joint Bookrunners, Cheerful Link Holdings Limited will provide reasonable evidence to us and the Joint Bookrunners showing that its holding of our share capital is on a proprietary investment basis.

The subscription obligation of the Cornerstone Investor is conditional upon, among other things, (a) the Public Offer Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and all of the conditions precedent to completion set forth therein having been satisfied in accordance with their respective original terms (or as subsequently waived by the relevant parties thereto) by no later than the respective time and date specified therein; (b) the Offer Price having been agreed by the Joint Bookrunners (on behalf of the Underwriters) and us in connection with the Global Offering; (c) neither of the Public Offer Underwriting Agreement and the International Underwriting Agreement having been terminated in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto; (d) the Listing Committee of the Stock Exchange having granted or agreeing to grant the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange; (e) no statute, rule or regulation having been enacted or promulgated by any governmental authority which prohibits the consummation

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of the closing of the cornerstone placing agreement and there being no order or injunction of a court of competent jurisdiction in effect precluding or prohibiting consummation of the closing of the cornerstone placing agreement; and (f) the respective representations, warranties and confirmations of Cheerful Link Holdings Limited and us in the cornerstone placing agreement are accurate.

Cheerful Link Holdings Limited is a wholly owned subsidiary of Yung's Enterprise which is based in Hong Kong and is primarily engaged in investment activities. Yung's Enterprise is wholly owned by Mr. Yung Chi Kin, an executive director of CITIC Group and the former chairman of CITIC Pacific Limited. Mr. Yung has extensive management experience, particularly in the PRC business.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

Joint Lead Managers

Morgan Stanley Asia Limited

Standard Chartered Securities (Hong Kong) Limited

BOCOM International Securities Limited

Co-Managers

First Shanghai Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

(a) Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, we are offering 40,000,000 Public Offer Shares (subject to adjustment) for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares (including the additional Shares to be issued pursuant to the Capitalization Issue and the exercise of the options which may be granted under the Pre-IPO Share Option Scheme, and the Shares to be sold by the Selling Shareholder upon the exercise of the Over-allotment Option); and (ii) certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus, the related Application Forms and the Public Offer Underwriting Agreement, for the Public Offer Shares now being offered and which are not taken up under the Public Offer.

The Public Offer Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if at any time prior to 8:00 a.m. on the Listing Date:

- (i) there shall develop, occur, exist or come into effect:
 - (1) any event, or series of events, in the nature of force majeure (including, without limitation, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism); or
 - (2) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currency or currencies), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands or any other jurisdiction relevant to any member of the Group; or

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- (3) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (4) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the European Union (or any member thereof), Japan, the Cayman Islands or any other jurisdiction relevant to any member of the Group, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (5) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands or any other jurisdiction relevant to any member of the Group; or
- (6) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union (or any member thereof) on the PRC or any other jurisdiction relevant to any member of the Group; or
- (7) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands or any other jurisdiction relevant to any member of the Group; or
- (8) any adverse change or prospective adverse change in the earnings, results of operations business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group (including any litigation or claim of any third party being threatened or instigated against the Company or any member of the Group); or
- (9) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (10) the chairman or chief executive officer of the Company vacating his or her office; or
- (11) an authority or a political body or organization in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (12) a contravention by any member of the Group of the Listing Rules or applicable laws; or
- (13) a prohibition on the Company for whatever reason from allotting or selling the Shares (including the Shares offered pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (14) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

UNDERWRITING

- (15) the issue or requirement to issue by the Company of any supplement or amendment to this Prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (16) any change or prospective change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or
- (17) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, after consultation with the Company to the extent that the Joint Bookrunners determine that it is appropriate and practicable under the circumstances, in the sole discretion of the Joint Bookrunners, (a) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (b) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Public Offer or the level of interest under the International Offering; or (c) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for any material part of the Public Offer Underwriting Agreement, or for any part of the Public Offer or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or (d) has or will have or is likely to have the effect of making any part of this Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has come to the notice of the Joint Bookrunners:

- (1) that any statement contained in any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any respect, or that any forecast, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
- (2) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of this prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto); or
- (3) any breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Public Offer Underwriters or the International Underwriters); or
- (4) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Public Offer Underwriting Agreement; or

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- (5) any adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or
- (6) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any respect, any of the warranties in the Public Offer Underwriting Agreement; or
- (7) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (8) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

then the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) may, upon giving notice (orally or in writing) to the Company, terminate the Public Offer Underwriting Agreement with immediate effect.

(b) International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we, Mr. Zhang and the Selling Shareholder will enter into the International Underwriting Agreement with the International Underwriters and the Joint Bookrunners. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally to purchase, or procure purchasers for, the International Offer Shares being offered pursuant to the International Offering.

The Selling Shareholder expects to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, after consultation with the Joint Bookrunners from the Listing Date until and including the 30th day after the last day for lodging applications under the Public Offer, to require the Selling Shareholder to sell up to an aggregate of 60,000,000 Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price, among other things, to cover over-allocations, if any, in the International Offering.

(c) Undertakings in respect of the Global Offering

Undertakings of the Company

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option), during the period commencing on the date of the Public Offer Underwriting agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), the Company hereby undertakes to each of the Sole Global Coordinator, the Joint Bookrunners, the Public Offer Underwriters and the Sole Sponsor not to, and to procure each other member of the Group not to, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (on behalf of the International Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (1) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or

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create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or

- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (3) enter into any transaction with the same economic effect as any transaction specified in (1) or (2) above; or
- (4) offer to or agree to or announce any intention to effect any transaction specified in (1), (2) or (3) above,

in each case, whether any of the transactions specified in (1), (2) or (3) above is to be settled by delivery of Shares or such other securities of the Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-Month Period**”), the Company enters into any of the transactions specified in (1), (2) or (3) above, or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company. Each of Mr. Zhang and Hilong Group Limited undertakes to each of the Sole Global Coordinator, the Joint Bookrunners, the Public Offer Underwriters and the Sole Sponsor to procure the Company to comply with the undertakings above.

Lock up undertakings by Mr. Zhang and Hilong Group Limited

Each of Mr. Zhang and Hilong Group Limited hereby undertakes to each of the Company, the Sole Global Coordinator, the Joint Bookrunners, the Public Offer Underwriters and the Sole Sponsor that, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (1) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (2) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and

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- (3) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

The above shall not apply to any sale, transfer, pledge or disposal of Shares in connection with the bank borrowings provided by Standard Chartered Bank (Hong Kong) Limited pursuant to a facility agreement dated December 27, 2010.

Lock up undertaking by UMW

UMW has agreed and undertaken with the Sole Sponsor that it will not:

- (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (an “**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other such securities, as applicable) (the foregoing restriction is expressly agreed to preclude the undersigned from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than the undersigned, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares);
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares);
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) and (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other subsidiary of the Company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the first six months from the Listing Date (the “Lock-Up Period”).

UMW further undertakes that, until the expiry of the Lock-Up Period, in the event that it enters into any of the transactions specified in (i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company. The foregoing undertakings shall not apply to any transfers of all (and not some only) of the Shares UMW owns to any of its wholly-owned subsidiaries, provided that such transferees deliver a lock-up agreement to the Sole Sponsor that is similar in form and substance to the lock-up undertakings by UMW described above.

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Lock up undertaking by Standard Charter Trust (Cayman) Limited

Standard Chartered Trust (Cayman) Limited as the trustee of Mr. Zhang's Trust, the Controlling Shareholder of the Company, undertakes to the Joint Bookrunners that:

- (a) during the First Six-Month Period, it will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of Shares directly or indirectly beneficially owned by it; or
- (b) during the Second Six-month Period, it will not dispose of, nor enter into any agreement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any such Shares directly or indirectly beneficially owned by it, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be the Controlling Shareholder of the Company.

In addition, Standard Chartered Trust (Cayman) Limited further undertakes to the Joint Bookrunners that during the First Six-month Period and the Second Six-month Period, it will:

- (c) when it pledges or charges any Shares of the Company beneficially owned by it directly or indirectly in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for bona fide commercial loan, immediately informs the Company of such pledge or charge together with the number of Shares of the Company so pledged or charged; and
- (d) when it receives any indications, either verbal or written, from any pledge or charge that any of the pledged or charged Shares will be disposed of, immediately informs the Company of such indications.

(d) Underwriting Commission and Listing Expenses

The Public Offer Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for Public Offer Shares initially offered under the Public Offer Underwriting Agreement. For unsubscribed Public Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Public Offer Underwriters. In addition, we may pay the Joint Bookrunners a discretionary incentive fee of up to 1.0% of the aggregate gross proceeds of the Public Offer Shares.

The aggregate commissions and fees (exclusive of any discretionary incentive fees), including the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, which are currently estimated to be approximately HK\$79.5 million in aggregate (based on an Offer Price of HK\$2.89 per Share, being the mid-point of the stated price range of the Offer Price between HK\$2.50 and HK\$3.27 per Share, and the assumption that the Over-allotment Option is not exercised), are to be borne by us as agreed between parties.

(e) Underwriters' Interests in our Company

Save for its obligations under the relevant Underwriting Agreement(s) or as otherwise disclosed in this prospectus, none of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

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This prospectus is published in connection with the Public Offer as part of the Global Offering. Morgan Stanley is the Sole Global Coordinator and Morgan Stanley, Standard Chartered and BOCOM International are the Joint Bookrunners for the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (a) the Public Offer of initially 40,000,000 Shares (subject to re-allocation as mentioned below) in Hong Kong as described below in the section headed “—The Public Offer”; and
- (b) the International Offering of initially 360,000,000 Shares (subject to re-allocation and the Over-allotment Option as mentioned below) in the United States with QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act, and outside the United States in reliance on Regulation S.

Investors may apply for our Shares under the Public Offer or indicate an interest, if qualified to do so, for our Shares under the International Offering, but may not do both. The Public Offer is open to members of the public in Hong Kong. The International Offering will involve selective marketing of our Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring our Shares in the International Offering. Prospective investors will be required to specify the number of our Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Shares to be offered under the Public Offer and the International Offering respectively may be subject to re-allocation as described in the section headed “Structure of the Global Offering—Pricing and Allocation” in this prospectus.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around April 14, 2011 and in any event, no later than April 19, 2011.

The Offer Price will be not more than HK\$3.27 per Share and is expected not to be less than HK\$2.50 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (on behalf of the Underwriters and with our consent) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of April 14, 2011, being the last day for lodging applications under the Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange’s website at www.hkexnews.hk and on the Company’s website at www.hilonggroup.net notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made

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until the day which is the last day for lodging applications under the Public Offer. Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, solely because the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range is so reduced.

The Shares to be offered in the Public Offer and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

Allocation of our Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional and retail or corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants, although the allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The applicable Offer Price, level of applications in the Public Offer, the level of indications of interest in the International Offering, and the basis of allocations of the Public Offer Shares are expected to be announced on April 20, 2011 through a variety of channels as described in the section headed "How to Apply for Public Offer Shares—Results of Allocations" in this prospectus.

CONDITIONS OF THE PUBLIC OFFER

Acceptance of any application for the Public Offer Shares pursuant to the Public Offer will be conditional on, inter alia:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including the Offer Shares and any Shares which may be issued pursuant to the Capitalization Issue and any share options under the Pre-IPO Share Option Scheme, and the Shares which fall to be sold by the Selling Shareholder upon the exercise of the Over-allotment Option;
- the Offer Price being duly determined;
- the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than April 19, 2011.

If for any reason, the Offer Price is not agreed by April 19, 2011 between the Joint Bookrunners (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause notice of the lapse of the Public Offer to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned,

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without interest, on the terms set out in the section headed “How to Apply for Public Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended.

The consummation of each of the Public Offer and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on April 20, 2011 but will only become valid certificates of title at 8.00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on April 21, 2011, if (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting—Underwriting Arrangements and Expenses—Public Offer—Grounds for Termination” in this prospectus has not been exercised.

THE PUBLIC OFFER

We are initially offering 40,000,000 new Shares at the Offer Price, representing 10% of the 400,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the re-allocation of Offer Shares between the International Offering and the Public Offer, the number of Shares initially offered under the Public Offer will represent approximately 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Public Offer Shares through the Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Offering, will not be allotted Offer Shares in the International Offering.

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

The Offer Price will be not more than HK\$3.27 and is expected to be not less than HK\$2.50. Applicants under the Public Offer are required to pay, on application, the maximum offer price of HK\$3.27 per Share plus 1% brokerage fee, 0.003% SFC transaction levy, and 0.005% Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$3.27, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Public Offer Shares” in this prospectus.

For allocation purposes only, the Public Offer Shares (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offer and the International Offering) will be divided equally into two pools: Pool A and Pool B, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. When there is over-subscription, allocation of the Public Offer Shares to investors under the Public Offer, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Public Offer. The basis of allocation in each pool may vary, depending on the number of Public Offer Shares validly applied for by each applicant. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some

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applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares. Multiple or suspected multiple applications within Pool A or Pool B, and between the two pools and any application for more than 50% of the 40,000,000 Shares initially comprised in the Public Offer (that is 20,000,000 Public Offer Shares) are liable to be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of Shares between the Public Offer and the International Offering is subject to adjustment. If the number of Public Offer Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Public Offer Shares initially available under the Public Offer, the total number of Public Offer Shares available under the Public Offer will be increased to 120,000,000, 160,000,000 and 200,000,000 Public Offer Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as "Mandatory Reallocation". In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Bookrunners deem appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B in the Public Offer.

If the Public Offer is not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the International Offering, in such proportions as the Joint Bookrunners deem appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Bookrunners may, at their discretion, reallocate Shares initially allocated for the International Offering to the Public Offer to satisfy valid applications in Pool A and Pool B under the Public Offer, regardless of whether the Mandatory Reallocation is triggered.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

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The number of Shares to be initially offered under the International Offering will be 360,000,000 Shares, representing 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Public Offer being unconditional. Subject to the reallocation of the Offer Shares between the International Offering and the Public Offer, the number of Shares initially offered under the International Offering will represent 22.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Pursuant to the International Offering, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A or another exemption under the U.S. Securities Act, as well as with institutional and professional investors and other investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

The Selling Shareholder expects to grant the Over-allotment Option to the International Underwriters, exercisable by Morgan Stanley on behalf of the International Underwriters, after consultation with the Joint Bookrunners at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for lodging of Application Forms under the Public Offer. Pursuant to the Over-allotment Option, after consultation with the Joint Bookrunners, Morgan Stanley will have the right to require the Selling Shareholder to sell up to an aggregate of 60,000,000 additional Shares for sale, representing in aggregate 15% of the Offer Shares initially available under the Global Offering. These Shares will be offered at the Offer Price. An announcement will be made in the event that the Over-allotment Option is exercised.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the underwriters are required to purchase in the Global Offering. “Covered” short sales are short sales made in an amount not greater than the Over-allotment Option and “covered” short position is any short position, including any such position created as a result of any covered short sales or other sales, in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by exercising the Over allotment Option to purchase additional Shares, purchasing Shares in the open market or through stock borrowing arrangements or a combination of these means.

In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of our Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of our Shares that may be over-allocated will not exceed the number of our Shares that may be issued under the Over-allotment Option, namely 60,000,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, Chapter 571W of the Laws of Hong Kong includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v). Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilizing Manager or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager or any person acting for it, will maintain such a position;

STRUCTURE OF THE GLOBAL OFFERING

- liquidation of any such long position by the Stabilizing Manager which may also take place during the stabilizing period, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on May 14, 2011, being the 30th day after the last date for lodging applications under the Public Offer. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

For the purpose of covering any covered short position, including any covered short position created by over-allocations, the Stabilizing Manager or its affiliates may borrow from Hilong Group Limited (our Controlling Shareholder) up to 60,000,000 Shares, equivalent to the maximum number of Shares to be sold on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement expected to be entered into between the Stabilizing Manager (or its affiliates acting on its behalf) and Hilong Group Limited on or about the Price Determination Date. The loan of Shares by Hilong Group Limited pursuant to the Stock Borrowing Agreement shall not be subject to the non-disposal undertakings given by the Controlling Shareholders to the Stock Exchange and the Joint Bookrunners, the Sole Sponsor and the Public Offer Underwriters (See “Underwriting—Underwriting Arrangements and Expenses—(c) Undertakings in respect of the Global Offering”) which restrict the disposal of Shares by Hilong Group Limited subsequent to the date of the Public Offer Underwriting Agreement, subject to compliance with the following requirements:

- (i) the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering;
- (ii) the maximum number of Shares which may be borrowed from Hilong Group Limited must not exceed the maximum number of Shares which may be sold upon the full exercise of the Over-allotment Option;
- (iii) the same number of Shares so borrowed must be returned to Hilong Group Limited or its nominees, as the case may be, on or before three Business Days after the earlier of (a) the last date on which the Over-allotment Option may be exercised, and (b) the date on which the Over-allotment Option is exercised in full;
- (iv) the borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- (v) no payments will be made to Hilong Group Limited by the Stabilizing Manager in relation to the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on April 21, 2011, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on April 21, 2011.

STRUCTURE OF THE GLOBAL OFFERING

UNDERWRITING ARRANGEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters) and us on the Price Determination Date and subject to the other conditions set out in the section headed “Conditions of the Public Offer” above.

We expect shortly after determination of the Offer Price on the Price Determination Date, to enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Public Offer Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” in this prospectus.

HOW TO APPLY FOR PUBLIC OFFER SHARES

WHO CAN APPLY FOR PUBLIC OFFER SHARES

You can apply for the Public Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a United States person (as defined in Regulation S), or a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Public Offer Shares by means of White Form eIPO, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Bookrunners (or its respective agents or nominees) may accept it at their discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Bookrunners, or the designated **White Form eIPO** Service Provider (where applicable) or our respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

CHANNELS TO APPLY FOR PUBLIC OFFER SHARES

You may apply for Public Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form;
- apply online through the designated website of the **White Form eIPO** Service Provider, referred to herein as the '**White Form eIPO**' service; or
- **electronically instructing** HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

HOW TO APPLY FOR PUBLIC OFFER SHARES

WHICH APPLICATION CHANNEL YOU SHOULD USE

- Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.
- Instead of using a **WHITE** Application Form, you may apply for the Public Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website at www.eipo.com.hk. Use **White Form eIPO** if you want the Public Offer Shares to be registered in your own name;
- Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.
- Instead of using a **YELLOW** Application Form, you may **electronically instruct** HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

WHERE TO COLLECT THE APPLICATION FORMS

You can collect a WHITE Application Form and a prospectus during normal business hours from 9:00 a.m. on April 11, 2011 until 12:00 noon on April 14, 2011 from:

Any of the following addresses of the Public Offer Underwriters

Morgan Stanley	46th Floor, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Standard Chartered	Standard Chartered Securities (Hong Kong) Limited 15/F, Two International Finance Centre 8 Finance Street Central Hong Kong
BOCOM International	BOCOM International Securities Limited 201 Far East Consortium Building 121 Des Voeux Road Central Hong Kong
First Shanghai	First Shanghai Securities Limited 19th Floor, Wing On House 71 Des Voeux Road Central Central Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Central Branch	Shop No. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Aberdeen Branch	Shop 4A, G/F, Aberdeen Centre Site 5, No. 6 Nam Ning Street, Aberdeen
Kowloon	Kwun Tong Branch	1A Yue Man Square, Kwun Tong
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Tai Po Branch	23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po
	New Town Plaza Branch	Shop 215 to 223, Phase 1, New Town Plaza, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on April 11, 2011 to 12:00 noon on April 14, 2011 from:

- the depository counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on April 14, 2011, or, if the application lists are not open on that day, by the time and date stated in the section headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in the section headed "Where to collect the Application Forms" at the following times:

- Monday, April 11, 2011 – 9:00 a.m. to 5:00 p.m.**
- Tuesday, April 12, 2011 – 9:00 a.m. to 5:00 p.m.**
- Wednesday, April 13, 2011 – 9:00 a.m. to 5:00 p.m.**
- Thursday, April 14, 2011 – 9:00 a.m. to 12:00 noon**

HOW TO APPLY FOR PUBLIC OFFER SHARES

Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

Monday, April 11, 2011 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, April 12, 2011 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, April 13, 2011 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, April 14, 2011 – 8:00 a.m.⁽¹⁾ to 12:00 p.m.

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on April 11, 2011 until 12:00 noon on April 14, 2011 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on April 14, 2011 or if the application lists are not open on that day, by the time and date stated in the section headed “Effect of bad weather conditions on the opening of the application lists” below.

White Form eIPO

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on April 11, 2011 until 11:30 a.m. on April 14, 2011 or such later time as described under the section headed “Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on April 14, 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the section headed “Effect of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon.

Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on April 14, 2011, except as provided in the section headed “—Effect of bad weather conditions on the opening of the application lists” below. Applicants should note that cheques or banker’s cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

Effect of bad weather conditions on the opening of the application lists

The Application Lists will be opened between 11:45 a.m. and 12:00 noon on April 14, 2011, subject only to weather conditions. The application lists will not open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on April 14, 2011. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

HOW TO APPLY FOR PUBLIC OFFER SHARES

HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

Obtain a WHITE or YELLOW Application Form

You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying check(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

Decide how many Public Offer Shares you want to subscribe for. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$3.27 per Public Offer Share, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. This means that for one board lot of 1,000 Shares you will pay HK\$3,302.96. The Application Forms have tables showing the exact amount payable for certain numbers of shares up to 20,000,000 Shares (as indicated on the **WHITE** and **YELLOW** Application Forms). Your application must be for a minimum of 1,000 Shares. Application for more than 1,000 Shares must be in one of the number of Shares set out in the table in the respective Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorized attorney, our Company and the Joint Bookrunners (or their respective agents or nominees), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

Each Application Form must be accompanied by either one check or one banker's cashier order.

If you pay by check, the check must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the check, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to "Horsford Nominees Limited — Hilong Public Offer"; and
- be crossed "Account Payee Only".

Your application is liable to be rejected if your check does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker's cashier order the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorized by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- be in Hong Kong dollars;
- not be post-dated;
- be made payable to “Horsford Nominees Limited — Hilong Public Offer”; and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to above.

Multiple or suspected multiple applications are liable to be rejected. Please refer to the section headed “How many applications you can make” below.

You should note that by signing the Application Form, among other things:

- (i) you confirm that you have only relied on the information and representations in this prospectus in making your application and not on any other information or representation concerning us and you agree that neither we, the Joint Bookrunners, the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- (ii) you agree that our Company, the Joint Bookrunners, the Underwriters, and any of their respective directors, officers, employers, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (iii) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares, nor otherwise participate in the International Offering; and
- (iv) you agree to disclose to us, the Hong Kong Share Registrar, receiving bankers, advisers, agents and the Joint Bookrunners and their respective agents the personal data and any information which they require about you or the person(s) for whose benefit you have made this application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- **If you are applying as an individual CCASS Investor Participant:**
 - you must fill in your name and your Hong Kong identity card number; and
 - you must insert your CCASS Participant I.D. in the appropriate box.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- **If you are applying as a joint individual CCASS Investor Participant:**
 - you must insert all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all the joint CCASS Investor Participants; and
 - you must insert your CCASS Participant I.D. in the appropriate box.
- **If you are applying as a corporate CCASS Investor Participant:**
 - you must insert your company name and your company's Hong Kong business registration number; and
 - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company name) in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we and the Joint Bookrunners, as our agent, may accept it at their discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Bookrunners in their capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

Personal data

The section of the Application Form headed "Personal data" applies to any personal data held by the Joint Bookrunners, our Company, the Hong Kong Share Registrar, receiving bankers, advisers, and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Public Offer Shares only if you are a **nominee**, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:
- an account number; or
 - another identification number

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed. It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the **WHITE** or **YELLOW** Application Form or electronic application instructions is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** service; or

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider through the **White Form eIPO** service, and that you are duly authorized to sign the Application Form as that other person's agent.
- (b) **All** of your applications under the Public Offer are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:
 - make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk);
 - both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service (www.eipo.com.hk);
 - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving electronic application instructions to HKSCC via CCASS or to the White Form eIPO Service Provider through the **White Form eIPO** service (www.eipo.com.hk) to apply for more than 20,000,000 Public Offer Shares (being 50% of the Public Offer Shares initially being offered for subscription by the public); or
 - apply for or take up any Offer Shares under the International Offering or otherwise participate in the International Offering or indicate an interest for any International Offer Shares.
- (c) **All** of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY THROUGH WHITE FORM eIPO

- (a) If you are an individual and meet the criteria set out in the section headed "How to Apply for Public Offer Shares—Who Can Apply for Public Offer Shares", you may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO**, the Public Offer Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (f) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the section headed “How to Apply for Public Offer Shares—When to Apply for the Public Offer Shares—White Form eIPO”.
- (g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on April 14, 2011, or such later time as described under the section headed “When to Apply for the Public Offer Shares—Effect of bad weather conditions on the opening of the application lists” the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**
- (h) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for the Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (i) **Warning: The application for Public Offer Shares through the White Form eIPO service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Public Offer Shares.**

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-served and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “Hilong Holding Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang—Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Public Offer to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. See “—How Many Applications You Can Make”.

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Additional Information

For the purposes of allocating Public Offer Shares, each applicant giving electronic application instructions through the **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at **www.eipo.com.hk**.

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Public Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Share Registrar.

Minimum subscription amount and permitted numbers

You may give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Each electronic application instruction in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

Application for Public Offer Shares by HKSCC Nominees on Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

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(ii) HKSCC Nominees does all the things on behalf of each of such persons who:

- agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
- undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Shares under the International Offering;
- (if the electronic application instructions are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, the Directors and Morgan Stanley in deciding whether or not to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorizes our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations and that person agrees that neither our Company, Morgan Stanley, the Underwriters or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- agrees that our Company, the Joint Bookrunners, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company and Hong Kong Share Registrar, receiving bankers, advisers, agents and the Joint Bookrunners and their respective agents, the personal data and any information which they require about that person or the person(s) for whose benefit the application is made;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable on or before the fifth day

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after the time of opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any public offer shares to any person on or before the fifth day after the time of opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offer published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offer Shares; and
- agrees that such person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Public Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

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Allocation of Public Offer Shares

For the purpose of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on April 20, 2011 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) in the manner as described in the section headed “— Results of Allocations” below on April 20, 2011. The basis of allotment of the Public Offer will be published on the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on April 20, 2011. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on April 20, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on April 20, 2011. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on April 20, 2011. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

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Warning

Application for Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Joint Bookrunners, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) **submit the WHITE or YELLOW Application Form (as appropriate); or**
- (b) **go to HKSCC's Customer Service Centre to complete an application instruction input request form for electronic application instructions before 12:00 noon on April 14, 2011 or such later time as described in the section headed "Effect of bad weather conditions on the opening of the Application Lists" above.**

RESULTS OF ALLOCATIONS

The results of allocations of the Public Offer Shares under the Public Offer, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC and the **White Form eIPO** Service Provider which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Public Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations will be available from the Stock Exchange's website at www.hkexnews.hk;
- Results of allocations will also be available from our website at www.hilonggroup.net and our results of allocations website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on April 20, 2011 to 12:00 midnight on April 26, 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from April 20, 2011 to April 23, 2011;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from April 20, 2011 to April 21, 2011 and on April 26, 2011 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for Public Offer Shares—Where to Collect the Application Forms".

DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) for applicants on **WHITE** and **YELLOW** Application Forms or by **White Form eIPO** service,
 - (i) Share certificate(s) for all the Public Offer Shares applied for, if the application is wholly

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successful; or (ii) Share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below); and/or

- (b) for applicants on **WHITE** and **YELLOW** Application Forms, refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is different from the initial price per Offer Share paid on application, in each case including brokerage at the rate of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but without interest.
- (c) for applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful and/or the Offer Price being different from the initial price per Offer Share paid on application, e-Refund payment instructions (if any) will be despatched to the application payment account.
- (d) for applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, refund check(s) will be sent to the address as specified on the **White Form eIPO** application by ordinary post and at the applicant’s own risk.

Subject as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and Share certificates for successful applicants under the **WHITE** Application Form or to the **White Form eIPO** Service Provider via the **White Form eIPO** service are expected to be posted on or before April 20, 2011. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of check(s).

(a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Public Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund check(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund check(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on April 20, 2011. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund check(s) and Share certificate(s) within the time period specified for collection, they will be despatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you apply for less than 1,000,000 Public Offer Shares or, if you apply for 1,000,000 Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) (where applicable) and your Share certificates (where applicable) in person, your Share certificate(s) (where applicable) and/or refund check(s) (where applicable) will be despatched to the address on your Application Form on or before April 20, 2011 by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for Public Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into

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CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on April 20, 2011, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner as described in the section headed "— Results of Allocations" above on April 20, 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on April 20, 2011 or such other date as will be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

If you apply for 1,000,000 Public Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on April 20, 2011, by ordinary post and at your own risk.

(c) If you apply through White Form eIPO service:

If you apply for 1,000,000 Public Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your share certificate(s) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on April 20, 2011, or such other date as notified by our Company in the newspapers as the date of despatch of e-Refund payment instructions/refund cheque(s)/share certificate(s). If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares or, if you apply for 1,000,000 Public Offer Shares but have not indicated on your application that you will collect your Share certificates in person, your Share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on or before April 20, 2011 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be despatched to the application payment account on or before April 20, 2011.

If you apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on your application, refund check(s) will be sent to the address specified in your

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application instructions to the designated **White Form eIPO** Service Provider on or before April 20, 2011, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider is set out in this section headed “Applying through White Form eIPO—Additional Information” of this prospectus.

(d) If you apply through giving electronic application instructions through HKSCC Nominees:

If you apply by giving electronic application instructions to HKSCC, and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instruction** on your behalf or your CCASS Investor Participant stock account on April 20, 2011 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you apply by giving **electronic application instructions** through HKSCC Nominees, you should check the results published by us in accordance with the details set out in the section headed “Results of Allocations” and report any discrepancies to HKSCC before 5:00 p.m. on April 20, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian,

If you have applied as a CCASS Investor Participant (by using a **YELLOW** Application Form or **giving electronic application instructions** to HKSCC Nominees), you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on April 20, 2011. Immediately after the credit of Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

If you apply through giving electronic application instructions to HKSCC, and your application is wholly or partially unsuccessful and/or the Offer Price is different from the price per Offer Share initially paid on your application, in each case including brokerage fee at the rate of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but without interest, will be credited to your designated bank account or the designated bank account of your broker or custodian on April 20, 2011.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf through the **White Form eIPO** service), and you should read them carefully. You should note the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or giving an **electronic application instruction**, you agree that your application or the application made by HKSCC on your behalf is irrevocable until after the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your electronic application instruction to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This

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collateral contract will be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person on or before the fifth day after the time of opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominee on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Public Offer as well as the International Offering:

You or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Shares in the International Offering. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** Service electronically, you agree not to apply for International Offer Shares under the International Offering. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Offering from investors who have received Public Offer Shares in the Public Offer.

(d) If our Company, the Joint Bookrunners or their respective agents exercise their discretion:

Our Company, the Joint Bookrunners, **White Form eIPO** Service Provider (where applicable) and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) Your application will be rejected or not be accepted if:

- your application is a multiple or a suspected multiple applications;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive Offer Shares under the International Offering;
- we believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located;
- if you apply for more than 100% of the Shares available for allocation in either Pool A or Pool B Public Offer Shares; or
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with their respective terms thereof.

REFUND OF APPLICATION MONIES

If you do not receive any Public Offer Shares for any of, but not limited to, the above reasons, our Company will refund your application monies, including brokerage, SFC transaction levy and Stock Exchange trading fee. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage, SFC transaction levy and Stock Exchange trading fee) without interest.

If the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of refund monies will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Bookrunners, checks for applications made on Application Forms for certain small denominations of Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on April 20, 2011 in accordance with the various arrangements as described above.

COMMENCEMENT OF DEALINGS IN THE SHARES

- Dealings in the Shares on the Stock Exchange are expected to commence on April 21, 2011.
- The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 1623.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

- If the Stock Exchange grants the listing of, and permission to deal in the Shares and our Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the director's of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Prince's Building
Central, Hong Kong

April 11, 2011

The Directors
Hilong Holding Limited

Morgan Stanley Asia Limited

Dear Sirs,

We report on the financial information (the "Financial Information") of Hilong Holding Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the combined balance sheets as at December 31, 2008, 2009 and 2010, the balance sheets of the Company as at December 31, 2008, 2009 and 2010, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended December 31, 2008, 2009 and 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. The Financial Information has been prepared by the directors of the Company and is set out in Section I to III below for inclusion in the prospectus of the Company dated April 11, 2011 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on October 15, 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganization as described in Note 1(ii) of Section II headed "General information of the Group and reorganization" (the "Reorganization") below, which was completed on March 2, 2011, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries, associates and jointly controlled entities as set out in Note 37, Note 10 and Note 11 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristic as a Hong Kong incorporated private company.

All companies comprising the Group during the Relevant Periods have adopted December 31, as their financial year end date.

The statutory financial statements of the subsidiaries now comprising the Group, where there is a statutory audit requirement, were not audited by us but by other auditors as set out in Note 37 of Section II below.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon and on the basis set out in Note 2 of Section II below.

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the basis of preparation set out in Note 2 of Section II and the accounting policies set out in Note 3 of Section II below which are in conformity with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purposes of this report and presented on the basis set out in Note 2 of Section II below, a true and fair view of the state of affairs of the Company as at December 31, 2008, 2009 and 2010, and of the combined state of affairs of the Group as at December 31, 2008, 2009 and 2010 and of the Group's combined results and cash flows for the Relevant Periods then ended.

I FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group prepared by the directors of the Company as at December 31, 2008, 2009 and 2010 and for each of the years ended December 31, 2008, 2009 and 2010, presented on the basis set out in Note 2 of Section II below:

Combined Balance Sheets

	Note	As at December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	7	470,708	608,014	733,292
Lease prepayments	8	46,698	45,691	55,788
Intangible assets	9	12,190	12,030	11,780
Investments in associates	10	64,135	63,782	78,811
Investments in jointly controlled entities	11	19,203	15,509	6,279
Deferred income tax assets	12	10,539	24,265	37,551
Other long-term assets	13	5,513	625	219
		<u>628,986</u>	<u>769,916</u>	<u>923,720</u>
Current assets				
Inventories	14	327,631	333,182	365,522
Trade and other receivables	15	812,247	919,166	1,179,748
Restricted cash	16	33,930	23,997	52,570
Cash and cash equivalents	16	220,468	141,603	246,936
		<u>1,394,276</u>	<u>1,417,948</u>	<u>1,844,776</u>
Total assets		<u>2,023,262</u>	<u>2,187,864</u>	<u>2,768,496</u>
EQUITY				
Capital and reserve attributable to equity holders of the Company				
Share capital	17	—	—	811
Other reserve	18	196,498	211,007	(82,328)
Retained earnings		578,368	619,343	776,116
Currency translation differences		122	(9,002)	(11,803)
		<u>774,988</u>	<u>821,348</u>	<u>682,796</u>
Non-controlling interests		<u>153,837</u>	<u>191,839</u>	<u>222,813</u>
Total equity		<u>928,825</u>	<u>1,013,187</u>	<u>905,609</u>

Combined Balance Sheets

	Note	As at 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
LIABILITIES				
Non-current liabilities				
Borrowings	19	15,712	12,078	1,200
Deferred income tax liabilities	12	50,357	60,991	77,061
Deferred revenue	20	—	—	13,650
		<u>66,069</u>	<u>73,069</u>	<u>91,911</u>
Current liabilities				
Deferred revenue	20	1,287	5,574	405
Trade and other payables	21	725,200	662,784	953,422
Current income tax liabilities		5,662	6,932	13,592
Derivative financial instruments	19(b)	—	—	133
Borrowings	19	296,219	426,318	803,424
		<u>1,028,368</u>	<u>1,101,608</u>	<u>1,770,976</u>
Total liabilities.		<u>1,094,437</u>	<u>1,174,677</u>	<u>1,862,887</u>
Total equity and liabilities		<u>2,023,262</u>	<u>2,187,864</u>	<u>2,768,496</u>
Net current assets		<u>365,908</u>	<u>316,340</u>	<u>73,800</u>
Total assets less current liabilities.		<u>994,894</u>	<u>1,086,256</u>	<u>997,520</u>

Balance Sheets

	Note	As at December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary	37	—	—	—
Current assets				
Trade and other receivables	36(c)	—	—	264,949
Cash and cash equivalents	16	—	—	33,728
		—	—	298,677
Total assets		—	—	298,677
EQUITY				
Capital and reserve attributable to equity holders of the Company				
Share capital	17	—	—	811
Accumulated losses		—	—	(4,408)
Total equity		—	—	(3,597)
LIABILITIES				
Current liabilities				
Trade and other payables	21	—	—	3,982
Derivative financial instruments	19(b)	—	—	133
Borrowings	19	—	—	298,159
		—	—	302,274
Total liabilities		—	—	302,274
Total equity and liabilities		—	—	298,677
Net current liabilities		—	—	(3,597)
Total assets less current liabilities		—	—	(3,597)

Combined Income Statements

	Note	Year ended December 31,		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
Revenue	6	1,701,380	1,006,656	1,356,462
Cost of sales	22	(935,615)	(621,083)	(799,856)
Gross profit		765,765	385,573	556,606
Selling and marketing expenses	22	(88,820)	(82,684)	(79,026)
Administrative expenses	22	(109,503)	(138,103)	(172,210)
Other income	25	7,273	—	—
Other gains-net	26	853	2,760	15,085
Operating profit		575,568	167,546	320,455
Finance income		1,830	1,743	700
Finance costs		(15,177)	(19,699)	(30,476)
Finance costs-net	27	(13,347)	(17,956)	(29,776)
Share of results of:				
—Associates	10	999	(353)	1,258
—Jointly controlled entities	11	(1,646)	(13,532)	(16,756)
Profit before income tax		561,574	135,705	275,181
Income tax expense	28	(66,142)	(25,689)	(45,275)
Profit for the year		495,432	110,016	229,906
Profit attributable to:				
Equity holders of the Company		437,290	60,627	178,369
Non-controlling interests		58,142	49,389	51,537
		495,432	110,016	229,906
Dividends	30	108,255	9,001	10,000

Combined Statements of Comprehensive Income

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit for the year	495,432	110,016	229,906
Other comprehensive income:			
Currency translation differences	87	2,210	(5,115)
Amount previously recognized in other comprehensive income in respect of a subsidiary disposed in 2010	—	—	(48)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary	—	(11,334)	2,314
Other comprehensive income for the year, net of tax	87	(9,124)	(2,849)
Total comprehensive income for the year	<u>495,519</u>	<u>100,892</u>	<u>227,057</u>
Attributable to:			
Equity holders of the Company	437,377	51,503	175,520
Non-controlling interests	58,142	49,389	51,537
	<u>495,519</u>	<u>100,892</u>	<u>227,057</u>

Combined Statements of Changes in Equity

	Note	Capital and reserves attributable to equity owners						Total equity
		Share capital	Other reserve	Retained earnings	Cumulative translation differences	Total	Non-controlling interests	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at January 1, 2008		—	174,552	294,159	35	468,746	68,670	537,416
Comprehensive income								
Profit for the year		—	—	437,290	—	437,290	58,142	495,432
Other comprehensive income								
Currency translation differences		—	—	—	87	87	—	87
Total comprehensive income for the year		—	—	437,290	87	437,377	58,142	495,519
Appropriation to statutory reserve	18(1)	—	44,826	(44,826)	—	—	—	—
Transactions with owners								
Dividends declared	30	—	—	(108,255)	—	(108,255)	—	(108,255)
Dividends to non-controlling interests by subsidiaries		—	—	—	—	—	(25,947)	(25,947)
Non-controlling interests arising from business combination	34	—	—	—	—	—	31,572	31,572
Non-controlling interests' contribution to the Group		—	—	—	—	—	21,400	21,400
Capital increase to subsidiaries by their then equity owners	18(2)	—	48,281	—	—	48,281	—	48,281
Consideration paid to the then equity holders for acquisition of subsidiaries under common control	18(2)	—	(71,161)	—	—	(71,161)	—	(71,161)
As at December 31, 2008		—	196,498	578,368	122	774,988	153,837	928,825
As at January 1, 2009		—	196,498	578,368	122	774,988	153,837	928,825
Comprehensive income								
Profit for the year		—	—	60,627	—	60,627	49,389	110,016
Other comprehensive income								
Currency translation differences		—	—	—	2,210	2,210	—	2,210
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		—	—	—	(11,334)	(11,334)	—	(11,334)
Total comprehensive income for the year		—	—	60,627	(9,124)	51,503	49,389	100,892
Appropriation to statutory reserve	18(1)	—	10,651	(10,651)	—	—	—	—
Transactions with owners								
Dividends declared	30	—	—	(9,001)	—	(9,001)	—	(9,001)
Dividends to non-controlling interests by subsidiaries		—	—	—	—	—	(17,627)	(17,627)
Non-controlling interests' contribution to the Group		—	—	—	—	—	6,240	6,240
Capital increase to subsidiaries by their then equity owners	18(2)	—	3,858	—	—	3,858	—	3,858
As at December 31, 2009		—	211,007	619,343	(9,002)	821,348	191,839	1,013,187

Combined Statements of Changes in Equity

	Note	Capital and reserves attributable to equity owners						
		Share capital	Other reserve	Retained earnings	Cumulative translation differences	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2010		—	211,007	619,343	(9,002)	821,348	191,839	1,013,187
Comprehensive income								
Profit for the year		—	—	178,369	—	178,369	51,537	229,906
Other comprehensive income								
Currency translation differences		—	—	—	(5,115)	(5,115)	—	(5,115)
Amount previously recognized in other comprehensive income in respect of a subsidiary disposed in 2010	35	—	(48)	—	—	(48)	—	(48)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		—	—	—	2,314	2,314	—	2,314
Total comprehensive income for the year		—	(48)	178,369	(2,801)	175,520	51,537	227,057
Appropriation to statutory reserve	18(1)	—	11,596	(11,596)	—	—	—	—
Transactions with owners								
Share capital issued and paid	17	811	—	—	—	811	—	811
Dividends declared	30	—	—	(10,000)	—	(10,000)	—	(10,000)
Dividends to non-controlling interests by subsidiaries		—	—	—	—	—	(25,997)	(25,997)
Non-controlling interests' contribution to the Group		—	—	—	—	—	9,951	9,951
Disposal of a subsidiary	35	—	—	—	—	—	(4,517)	(4,517)
Capital increase to subsidiaries by their then equity owners	18(2)	—	6,044	—	—	6,044	—	6,044
Consideration paid/payable to the then equity holders for acquisition or disposal of subsidiaries under common control	18(2)	—	(310,927)	—	—	(310,927)	—	(310,927)
As at December 31, 2010		<u>811</u>	<u>(82,328)</u>	<u>776,116</u>	<u>(11,803)</u>	<u>682,796</u>	<u>222,813</u>	<u>905,609</u>

Combined Cash Flow Statements

	Note	Year ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Cash flow from operating activities				
Cash generated from operations	31(a)	298,668	107,583	223,822
Interest paid		(15,729)	(19,330)	(24,750)
Income tax paid		(23,371)	(27,511)	(35,731)
Net cash generated from operating activities		<u>259,568</u>	<u>60,742</u>	<u>163,341</u>
Cash flow from investing activities				
Proceeds from disposal of property, plant and equipment	31(b)	10,493	2,622	509
Acquisition of subsidiaries, net of cash acquired	34	(11,700)	—	—
Disposal of a subsidiary	35	—	—	(100)
Investments in associates		(23,725)	—	(4,500)
Investments in jointly controlled entities		(17,372)	(6,309)	(8,844)
Purchases of property, plant and equipment		(210,564)	(196,109)	(144,670)
Purchases of land use rights		—	—	(12,765)
Purchases of intangible assets		(593)	(103)	(16)
Dividends received		4,014	—	4,524
Net cash used in investing activities		<u>(249,447)</u>	<u>(199,899)</u>	<u>(165,862)</u>
Cash flows from financing activities				
Contributions to subsidiaries by their then equity owners	18(2(a))	48,281	3,858	6,044
Capital contributions to the Company	17	—	—	811
Net cash outflow arising from consideration paid to the then equity holders for acquisition of subsidiaries under common control		(3,677)	—	(235,384)
The subsidiaries' non-controlling interests' contribution to these subsidiaries		21,400	6,240	9,951
Proceeds from borrowings		363,667	548,485	852,419
Repayments of borrowings		(223,150)	(422,250)	(490,792)
Dividends paid to the non-controlling interests of the subsidiaries		(23,092)	(11,417)	(27,828)
Dividends paid to the Controlling Shareholder		(40,162)	(63,771)	(1,830)
Security deposit paid for the bank borrowings		—	—	(5,000)
Net cash generated from financing activities		<u>143,267</u>	<u>61,145</u>	<u>108,391</u>
Net increase/(decrease) in cash and cash equivalents		<u>153,388</u>	<u>(78,012)</u>	<u>105,870</u>
Exchange losses on cash and cash equivalents		(1,110)	(853)	(537)
Cash and cash equivalents at beginning of the year		68,190	220,468	141,603
Cash and cash equivalents at end of the year		<u>220,468</u>	<u>141,603</u>	<u>246,936</u>

II NOTES TO THE FINANCIAL INFORMATION

1. General information of the Group and reorganization

(i) General information of the Group

The Company was incorporated in the Cayman Islands on October 15, 2008 as an exempted company with limited liability under the Company Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands in preparation for listing the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"). The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and distribution of oil and gas equipment and coating materials, and provision of coating services and oilfield services.

Prior to the incorporation of the Company and the completion of the reorganization as described in Note 1(ii) below (the "Reorganization"), the listing business were carried out by the companies now comprising the Group, which were collectively controlled by Mr. Zhang Jun (the "Controlling Shareholder").

(ii) History and Reorganization of the Group

Prior to the Reorganization, the business of the Group was owned and operated through two holding companies, Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("Huashi Hailong") and Hailong International (L) Ltd. ("Hailong International"). Huashi Hailong is a limited liability company established in the People's Republic of China (the "PRC") in 2001, while Hailong International is a limited liability company established in Malaysia in 2003. Both companies are controlled and beneficially owned by the Controlling Shareholder.

During the period from 2006 to 2008, Huashi Hailong gradually transferred its equity interests in its subsidiaries engaged in the coating materials and service business to Hilong Group of Companies Ltd., a company established in November 2004 in the PRC and was held by Huashi Hailong and Hailong International in a ratio of 35% and 65% respectively, after a series of equity contributions made by Huashi Hailong and Hailong International. Hilong Group of Companies Ltd. became a wholly-owned subsidiary of Hailong International in October 2008 upon the transfer of 35% equity interest in Hilong Group of Companies Ltd. from Huashi Hailong. Please refer to Note 18 for details of these transactions in the Relevant Periods.

In preparation of the Listing, the Group underwent the Reorganization which principally involved:

- (a) On October 15, 2008, the Company (formerly named Pacific Energy Holding Limited) was incorporated by Mr. Zhang Jun who then transferred his entire equity interest in the Company on November 13, 2008 to Hilong Group Limited, a limited liability company incorporated on October 15, 2008 in the British Virgin Islands (the "BVI") by Mr. Zhang Jun, for a consideration of HK\$ 0.1.
- (b) In a consideration of HK\$ 1.0, the entire equity interest in Hilong Energy Holding Limited (formerly named Pacific Energy International Limited), a limited liability company incorporated on October 15, 2008 in the BVI by Mr. Zhang Jun, was transferred to the Company on November 13, 2008.
- (c) On July 8, 2008, Hilong Energy Limited (formerly named Brave Flame Limited) was incorporated in Hong Kong by Harefield Limited, a Hong Kong company wholly-owned by Ms. Zhang Shuman, the sister of Mr. Zhang Jun. On November 13, 2008, Harefield Limited transferred its 100% equity interest in Hilong Energy Limited to Hilong Energy Holding Limited, for a consideration of HK\$ 1.0. As a result, Hilong Energy Limited became a wholly-owned subsidiary of Hilong Energy Holding Limited, which is in turn a wholly-owned subsidiary of the Company.
- (d) During the period from July 2010 to March 2011, Hailong International gradually transferred its equity interests in its subsidiaries engaged in the business of manufacturing and distribution of oil and gas

equipment, coating materials and provision of coating services and oilfield services, including Hilong Group of Companies Ltd., to Hilong Energy Limited, for a total cash consideration of RMB 320,109,000. Please refer to Note 18 for details of these transactions in the Relevant Periods.

Upon completion of the Reorganization, the Company became the holding company of the Group.

The Company's direct and indirect interests in its subsidiaries as at the date of this report are set out in Note 37.

2 Basis of presentation

The controlling shareholder owned and controlled the companies now comprising the Group before the Reorganization and continues to own and control these companies after the Reorganization. For the purposes of this report, the Financial Information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA. The combined balance sheets, combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods or since the respective dates when these companies first came under the control of the Controlling Shareholder, whichever is the shorter period, in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (Note 3.2(b)).

All significant intra-group transactions and balances have been eliminated on combination.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information is set out below. These policies have been consistently applied during the Relevant Periods.

3.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and under the historical cost convention as modified by the revaluation of derivative financial instruments at fair value.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5 below.

Up to the date of this report, the HKICPA has issued the following new standards, amendments and interpretations which are relevant to the Group's operations but are not yet effective for the annual accounting period beginning January 1, 2011 and which have not been early adopted by the Group:

	<u>Effective for annual periods beginning on or after</u>
HKAS 24 (Revised) Related party disclosures	January 1, 2011
HK(IFRIC)—Int 19 Extinguishing financial liabilities with equity instruments	January 1, 2011
Third improvements to Hong Kong Financial Reporting Standards (2010)	January 1, 2011
HKFRS 9 Financial Instruments	January 1, 2013

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the financial statements of the Group in the initial application. The adoption of the above is not expected to have a material effect on the Group's operating results or financial position.

3.2 Consolidation and combination

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting (Note 3.2(b)).

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the combined income statements (Note 3.7).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Merger accounting for common control combination

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealized gains on transactions between the combining entities or businesses are eliminated. Unrealized losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognized as an expense in the period in which they are incurred.

(c) Transaction with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition (Note 3.8), net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the combined income statements, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the combined income statements.

(e) Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

Investment in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognized at cost. The combined income statements include the Group's share of the post-acquisition results of jointly controlled entities, and the combined balance sheets include the Group's share of the net assets of the jointly controlled entities and goodwill identified on acquisition (see Note 3.8) net of any accumulated impairment losses.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management that makes strategic decisions.

3.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB") throughout the Relevant Periods, which is the Company's functional and the Group's presentation currency.

The financial statements are presented in thousands Renminbi unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined income statements within "finance income or cost". All other foreign exchange gains and losses are presented in the combined income statements within "other gains/(losses)—net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the companies comprising the Group (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at balance sheet date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation or combination, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the combined income statements as part of the gain or loss on sale.

3.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the Relevant Periods in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings and facilities	10 to 40 years
Machinery and equipment	5 to 20 years
Office and electronic equipment	3 to 10 years
Vehicles	3 to 10 years
Leasehold improvement	5 to 10 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalized borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses)—net" in the combined income statements.

3.6 Lease prepayments

Lease prepayments represent upfront payments made for the land use rights. It is stated at cost and charged to the combined income statements over the remaining period of the lease on a straight-line basis, net of any impairment losses, if any.

3.7 Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Computer software

Acquired computer software license are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over periods ranging from 2 to 10 years.

(iii) Proprietary technologies

Proprietary technologies are initially recorded at cost and are amortized on the straight-line basis over their estimated useful lives of 10 years.

3.8 Impairment of investments in subsidiaries, associates, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates or jointly controlled entities are required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

3.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group only has financial assets classified as "loans and receivables" during the Relevant Periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted cash" and "cash and cash equivalents", in the combined balance sheets (Notes 15 and 16).

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

3.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debt will become bankrupt, financial reorganization, and default of payment is considered indicators that the receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the combined income statements.

When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the combined income statements.

3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalent.

3.13 Restricted cash

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreement. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

3.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3.16 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the combined income statements over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing are classified as current liabilities if the loan agreements include an overriding repayment on demand clause, which gives the lender the right to demand repayment at any time at their sole discretion, irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the agreement.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3.17 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in the profit or loss.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognized in the combined income statements.

3.18 Compound financial instruments

Compound financial instruments refer to the Series A convertible preferred shares issued by the Company (Note 19(b)).

In the situation when the derivatives are not closely related to the debt host, these derivatives should be bifurcated and accounted for separately. The derivatives are recognized initially at fair value. The liability component is measured as the residual amount after separating the derivatives. Any directly attributable transaction costs are allocated to the liability components.

Subsequent to initial recognition, the embedded derivatives are carried at fair value. The liability component is measured at amortized cost using the effective interest method.

3.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the combined income statements, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.20 Employee benefits

(a) Pension obligations

The PRC employees of the Group covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

(b) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

3.21 Provision and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the

control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

3.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of drill pipes, coating materials and related products

Revenue from the sales of drill pipes, coating materials and related products is recognized when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Rendering of coating and oilfield service

Coating services revenue is recognized in the accounting period in which the services are rendered.

Oilfield services may be provided on a day-rate basis or a fixed-price basis, with contract terms generally less than one year. The revenue of oilfield services is recognized under the percentage-of-completion method. Revenue from day-rate oilfield services contracts is generally recognized on the basis of labor hours delivered as a percentage of total hours to be delivered. Revenue from fixed-price oilfield services contracts is generally recognized based on the services performed to date as a percentage of the total service to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

(c) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(d) Dividend income

Dividend income is recognized when the right to receive payment is established.

3.23 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognized in the combined income statements over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the combined income statements on a straight-line basis over the expected useful lives of the related assets.

3.24 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined income statements on a straight-line basis over the period of the lease.

3.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.26 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

4 Financial risk management

4.1 Financial risk factors

The Group's major financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD"). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. Although the Group did not hedge against any fluctuation in foreign currency during the Relevant Periods, management may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in future.

As at December 31, 2008, 2009 and 2010, if USD had strengthened /weakened by 10% against RMB with all other variables held constant, the net profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of RMB and USD denominated cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings.

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000
Year ended:			
Net profit increase/(decrease)			
—Strengthened 10%	6,082	(3,053)	(2,143)
—Weakened 10%	<u>(6,082)</u>	<u>3,053</u>	<u>2,143</u>

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents and restricted cash, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 19.

As at December 31, 2008, 2009 and 2010, if the interest rate on borrowings had been higher/lower by 5%, the net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Year ended:			
Net profit increase/(decrease)			
—Higher 5%	(1,305)	(1,629)	(1,068)
—Lower 5%	<u>1,305</u>	<u>1,629</u>	<u>1,068</u>

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables included in the Financial Information represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

As at December 31, 2008, 2009 and 2010, all cash and cash equivalents, including restricted cash, were deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality. The table below shows the bank deposit balances of the ten major counterparties as at December 31, 2008, 2009 and 2010:

Counterparty	Rating	As at December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
China Construction Bank	A-*	44,015	61,465	22,574
China Rural Commercial Bank	n.a.	40,787	3,498	7,418
Bank of China	A-*	34,214	33,220	30,438
China Merchants Bank	BBB*	29,197	5,724	33,035
Bank of Communication	BBB+*	26,693	17,951	3,940
Bank of Beijing	BBB*	16,575	19,822	21,641
China Citic Bank	Baa2**	14,025	2,368	5,995
Bank of Agriculture	A1**	13,300	9,260	12,542
Industrial & Commercial Bank of China	A-*	4,293	3,516	5,354
Bank of Jiangsu	n.a.	2,039	297	6,501
Standard Chartered Bank	A+*	—	—	<u>133,069</u>

* The source of credit rating is from S&P.

** The source of credit rating is from Moody's.

The directors of the Company do not expect any losses from non-performance by these counterparties.

The top five customers accounted for 36%, 27% and 33% of total sales for the year ended December 31, 2008, 2009 and 2010. The trade and other receivables which are past due are analyzed in Note 15.

The Group established policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers and volume of sales. Please refer to Note 15 for ageing analysis. Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

(c) *Liquidity risk*

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u> RMB'000	<u>Between 1 and 2 years</u> RMB'000	<u>Between 2 and 5 years</u> RMB'000	<u>Over 5 years</u> RMB'000	<u>Total</u> RMB'000
As at 31 December 2008					
Borrowings	296,219	10,847	5,900	—	312,966
Interest payable on borrowings	11,317	1,412	2,116	—	14,845
Trade and other payables, except for the advance from customers	674,410	—	—	—	674,410
	<u>981,946</u>	<u>12,259</u>	<u>8,016</u>	<u>—</u>	<u>1,002,221</u>
As at 31 December 2009					
Borrowings	426,907	11,600	1,200	—	439,707
Interest payable on borrowing	10,407	1,052	525	—	11,984
Trade and other payables, except for the advance from customers	605,898	—	—	—	605,898
	<u>1,043,212</u>	<u>12,652</u>	<u>1,725</u>	<u>—</u>	<u>1,057,589</u>
As at 31 December 2010					
Borrowings	806,753	1,200	—	—	807,953
Interest payable on borrowings	27,492	525	—	—	28,017
Trade and other payables, except for the advance from customers	857,338	—	—	—	857,338
	<u>1,691,583</u>	<u>1,725</u>	<u>—</u>	<u>—</u>	<u>1,693,308</u>

4.2 *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the combined balance sheets) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the Financial Information plus net debt. The Group aims to maintain the gearing ratio between 20% and 40%.

The gearing ratios as at December 31, 2008, 2009 and 2010 are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Total borrowings (Note 19)	311,931	438,396	804,624
Less: Cash and cash equivalents (Note 16)	(220,468)	(141,603)	(246,936)
Net debt	91,463	296,793	557,688
Total equity	928,825	1,013,187	905,609
Total capital	1,020,288	1,309,980	1,463,297
Gearing ratio	<u>8.96%</u>	<u>22.66%</u>	<u>38.11%</u>

The increase in the gearing ratio during the year ended December 31, 2009 and 2010 is resulted primarily from the significant increase in the balance of borrowings.

4.3 Fair value estimation

The Group adopts the amendment to HKFRS 7 for financial instruments that are measured in the combined balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group uses valuation techniques to determine the fair value of the derivative financial instruments that are not traded in an active market (Note 19(b)). The derivative financial instrument is included in level 3.

Except for the derivative financial instruments, the carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash and trade and other receivables, except for the prepayments, and financial liabilities including trade and other payables, except for the advance from customers, and current borrowings, approximate to their fair value due to their short maturity. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

The fair value of non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group for similar financial instruments.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current income taxes and deferred tax

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment for receivables

The average credit period granted to customers is between 30 to 270 days. The trade and other receivables which are past due are analyzed in Note 15. In the opinion of the Group's directors, delay in receiving payments from the customers mainly attributed to unfavorable market conditions for oil and gas industry, delayed commencement of oil and gas exploratory or production activities due to various reasons beyond the Group's control under the background of global economic crisis. It does not indicate there is a financing transaction included in the sales contract. Accordingly, the Group did not recognize revenue by discounting the consideration receivable/received to present value.

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability and time value of trade and other receivables. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the past collection history of each counterparty, the current creditworthiness, and the current market condition. In the opinion of the Group's directors, the major customers of the Group are state-owned oil and gas companies, which account for over 60% of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and prevailing market conditions, the Group did not expect any losses from non-performance by these counterparties. At each balance sheet date, the Group also assessed time value of trade and other receivables based on the current expectation of the collection period, the difference between the carrying amount and the present value of the estimated future cash flows is not significant. Accordingly, the Group did not provide further impairment provision for receivables.

(d) Estimated write-downs of inventories

The Group writes down inventories to net realizable value based on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realized. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

6 Segment information

The chief operating decision-maker has been identified as senior executive management. Senior executive management reviews the Group's internal reporting in order to assess performance and allocate resources. Senior executive management has determined the operating segment based on these reports.

Senior executive management considers the business from a business perspective, and assesses the performance of the business segment based on profit before income tax without allocation of finance income/ (costs), share of results of associates and share of results of jointly controlled entities, which is consistent with that in the Financial Information.

The amount provided to senior executive management with respect to total assets is measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of segment. Investments in associates and investments in jointly controlled entities are not considered to be segment assets but rather are managed by the treasury function.

The amount provided to senior executive management with respect to total liabilities is measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of segment.

The Group's operations are mainly organized under the following business segments:

- Oil and gas equipment production, including the production of drilling pipes which are used in drilling exploration or production wells for oil and gas producers;
- Coating materials production and coating service provision, including the production of coating materials for anticorrosive purpose and provision of coating services (the interior of most of the drilling pipes need to be coated with anticorrosive chemicals); and
- Oilfield services provision, including the provision of well drilling services to oil and gas producers.

(a) *Revenues*

The revenue of the Group for the years ended December 31, 2008, 2009 and 2010 are set out as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Drill pipes and related products	1,261,262	518,586	713,068
Coating materials and services	415,934	435,026	371,856
Oilfield services	24,184	53,044	271,538
	<u>1,701,380</u>	<u>1,006,656</u>	<u>1,356,462</u>

(c) Geographical segments

Although the Group's three segments are managed on a worldwide basis, they operate in four principal geographical areas of the world. In the PRC, its home country, the Group produces and sells a broad range of drill pipes and related products, and provides coating materials and services. In Russia, Central Asia and North and South America, the Group sells drill pipe and related products. In Russia, Central Asia and Middle East, the Group provides drilling services and engineering services. The following table shows the Group's total combined revenue by geographical market, regardless of where the goods were produced:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC	1,045,955	847,583	778,903
Russia and Central Asia	484,431	116,648	209,186
North and South America	52,949	18,845	250,801
Middle East	58,800	10,052	99,876
Others	59,245	13,528	17,696
	<u>1,701,380</u>	<u>1,006,656</u>	<u>1,356,462</u>

The following tables show the carrying amount of non-current assets, excluding investments in associates, investments in jointly controlled entities, deferred income tax assets and other long-term assets by geographical areas in which the assets are located:

	Carrying amount of segment assets		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC	486,115	592,653	591,779
Russia and Central Asia	43,481	62,585	54,122
North and South America	—	10,497	82,487
Middle East	—	—	72,472
	<u>529,596</u>	<u>665,735</u>	<u>800,860</u>

The following tables show the additions to non-current assets, excluding investments in associates, investments in jointly controlled entities, deferred income tax assets and other long-term assets by geographical areas in which the assets are located:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC	208,808	152,742	51,312
Russia and Central Asia	45,489	32,477	1,452
North and South America	—	11,783	76,163
Middle East	—	—	74,205
	<u>254,297</u>	<u>197,002</u>	<u>203,132</u>

During the year ended December 31, 2008, 2009 and 2010, revenue from certain individual customer amounted to ten percent or more of the Group's total combined revenue for the respective year. The revenue of these customers during the Relevant Periods are summarized below:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Drill pipes and related products segment customer 1	254,247	n.a.	n.a.
Coating materials and services segment customer 2	n.a.	151,288	n.a.
Oilfield services segment customer 3	n.a.	n.a.	140,312

7 Property, plant and equipment

Group

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Vehicles	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008							
Cost	83,791	141,367	8,586	9,789	520	24,096	268,149
Accumulated depreciation	(9,022)	(12,695)	(2,409)	(2,967)	(101)	—	(27,194)
Net book amount	<u>74,769</u>	<u>128,672</u>	<u>6,177</u>	<u>6,822</u>	<u>419</u>	<u>24,096</u>	<u>240,955</u>
Year ended December 31, 2008							
Opening net book amount	74,769	128,672	6,177	6,822	419	24,096	240,955
Acquisition of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a))	681	12,957	94	558	280	—	14,570
Acquisition of Shanghai Boteng Welding Consumable Co., Ltd. (Note 34(b))	—	2,004	41	191	—	—	2,236
Transferred from construction in progress	17,562	53,743	115	—	—	(71,420)	—
Additions	7,680	36,361	2,440	4,122	105	191,793	242,501
Disposals	(527)	(447)	(97)	—	—	—	(1,071)
Depreciation (Note 22)	(5,282)	(17,603)	(1,342)	(2,067)	(181)	—	(26,475)
Exchange differences	—	—	—	—	—	(2,008)	(2,008)
Closing net book amount	<u>94,883</u>	<u>215,687</u>	<u>7,428</u>	<u>9,626</u>	<u>623</u>	<u>142,461</u>	<u>470,708</u>
At December 31, 2008							
Cost	109,123	253,168	11,251	15,273	972	142,461	532,248
Accumulated depreciation	(14,240)	(37,481)	(3,823)	(5,647)	(349)	—	(61,540)
Net book amount	<u>94,883</u>	<u>215,687</u>	<u>7,428</u>	<u>9,626</u>	<u>623</u>	<u>142,461</u>	<u>470,708</u>
Year ended December 31, 2009							
Opening net book amount	94,883	215,687	7,428	9,626	623	142,461	470,708
Transferred from construction in progress	81,347	124,197	—	—	—	(205,544)	—
Additions	9,606	13,977	3,946	778	—	168,592	196,899
Disposals	—	(3,740)	(53)	(187)	(152)	—	(4,132)
Depreciation (Note 22)	(10,195)	(31,589)	(2,044)	(2,477)	(193)	—	(46,498)
Exchange differences	—	(8,941)	(16)	(6)	—	—	(8,963)
Closing net book amount	<u>175,641</u>	<u>309,591</u>	<u>9,261</u>	<u>7,734</u>	<u>278</u>	<u>105,509</u>	<u>608,014</u>

	<u>Buildings and facilities</u>	<u>Machinery and equipment</u>	<u>Office and electronic equipment</u>	<u>Vehicles</u>	<u>Leasehold improvement</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At December 31, 2009							
Cost	200,066	377,409	14,973	15,624	687	105,509	714,268
Accumulated depreciation	(24,425)	(67,818)	(5,712)	(7,890)	(409)	—	(106,254)
Net book amount	<u>175,641</u>	<u>309,591</u>	<u>9,261</u>	<u>7,734</u>	<u>278</u>	<u>105,509</u>	<u>608,014</u>
Year ended December 31, 2010							
Opening net book amount	175,641	309,591	9,261	7,734	278	105,509	608,014
Transferred from construction in progress	100	76,358	34	—	—	(76,492)	—
Additions	8,873	99,057	2,227	2,928	375	76,891	190,351
Disposals	—	(265)	(47)	(90)	—	—	(402)
Depreciation (Note 22)	(8,092)	(41,944)	(2,818)	(2,670)	(176)	—	(55,700)
Disposal of a subsidiary (Note 35)	(4,706)	—	(16)	(165)	—	—	(4,887)
Exchange differences	—	(4,084)	—	—	—	—	(4,084)
Closing net book amount	<u>171,816</u>	<u>438,713</u>	<u>8,641</u>	<u>7,737</u>	<u>477</u>	<u>105,908</u>	<u>733,292</u>
At December 31, 2010							
Cost	199,938	548,430	16,970	17,316	1,062	105,908	889,624
Accumulated depreciation	(28,122)	(109,717)	(8,329)	(9,579)	(585)	—	(156,332)
Net book amount	<u>171,816</u>	<u>438,713</u>	<u>8,641</u>	<u>7,737</u>	<u>477</u>	<u>105,908</u>	<u>733,292</u>

As at December 31, 2008, 2009 and 2010, certain buildings and facilities with carrying amount of RMB2,727,000, RMB94,933,000 and RMB88,411,000, respectively, were secured for the Group's borrowing (Note 19(a)).

As at December 31, 2010, certain machinery and equipment with carrying amount of RMB87,906,000 were secured for the Group's bank borrowing (Note 19(a)).

As at December 31, 2010, certain machinery and equipment with carrying amount of RMB69,298,000 were secured for the Group's Series A convertible preferred shares (Note 19(b)).

Depreciation of property, plant and equipment has been charged to the combined income statements as follows:

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cost of sales	21,188	35,728	40,249
Administrative expenses	5,253	10,601	15,227
Selling and marketing expenses	34	169	224
	<u>26,475</u>	<u>46,498</u>	<u>55,700</u>

8 Lease prepayments

Group

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analyzed as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Outside of Hong Kong			
—Lease of 50 years	46,698	45,691	55,788
	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Opening net book value	47,737	46,698	45,691
Additions	—	—	12,765
Amortization charges (Note 22)	(1,039)	(1,007)	(1,033)
Disposal of a subsidiary (Note 35)	—	—	(1,635)
Closing net book value	46,698	45,691	55,788

As at December 31, 2008, 2009 and 2010, certain land use right with a carrying amount of RMB41,524,000, RMB40,636,000 and RMB39,747,000, respectively, was pledged as collaterals for the Group's borrowings (Note 19(a)).

The amortization of lease prepayments has been charged to administrative expenses in the combined income statements.

9 Intangible assets

Group

	Goodwill	Proprietary technologies	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008				
Cost	—	3,137	516	3,653
Accumulated amortization	—	(689)	(169)	(858)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	—	351	347	698
Year ended December 31, 2008				
Opening net book amount	—	351	347	698
Additions ^(b)	11,203	—	593	11,796
Amortization charges (Note 22)	—	(46)	(258)	(304)
Closing net book amount	11,203	305	682	12,190
At December 31, 2008				
Cost	11,203	3,137	1,109	15,449
Accumulated amortization	—	(735)	(427)	(1,162)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	11,203	305	682	12,190

	<u>Goodwill</u>	<u>Proprietary technologies</u>	<u>Computer software</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2009				
Opening net book amount	11,203	305	682	12,190
Additions	—	—	103	103
Amortization charges (Note 22)	—	(46)	(217)	(263)
Closing net book amount	<u>11,203</u>	<u>259</u>	<u>568</u>	<u>12,030</u>
At December 31, 2009				
Cost	11,203	3,137	1,212	15,552
Accumulated amortization	—	(781)	(644)	(1,425)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	<u>11,203</u>	<u>259</u>	<u>568</u>	<u>12,030</u>
Year ended December 31, 2010				
Opening net book amount	11,203	259	568	12,030
Additions	—	—	16	16
Amortization charges (Note 22)	—	(57)	(209)	(266)
Closing net book amount	<u>11,203</u>	<u>202</u>	<u>375</u>	<u>11,780</u>
At December 31, 2010				
Cost	11,203	3,137	1,228	15,568
Accumulated amortization	—	(838)	(853)	(1,691)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	<u>11,203</u>	<u>202</u>	<u>375</u>	<u>11,780</u>

- (a) The impairment provision for proprietary technologies was made in the year ended December 31, 2007 and is mainly attributable to the significant changes that were expected in the drilling pipe production technology.
- (b) Impairment test for goodwill

The goodwill addition arose from the acquisition of additional equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. of RMB7,493,000 and Shanghai Boteng Welding Consumable Co., Ltd. of RMB3,710,000 in 2008 (Note 34). The goodwill is mainly attributable to the economies of scale anticipated as a result of combining the operation within the Group.

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to business segment. A segment level summary of goodwill is presented below:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Drill pipes and related products	—	—	—
Coating materials and services	11,203	11,203	11,203
Oilfield services	—	—	—
	<u>11,203</u>	<u>11,203</u>	<u>11,203</u>

As described in Note 3.7 and Note 3.8, goodwill is reviewed for impairment annually. The recoverable amount of the CGU is determined based on the higher of the fair value less cost to sell or its value-in-use estimate. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

- (c) The amortization of intangible assets has been charged to the combined income statements as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cost of sales	46	46	46
Administrative expenses	258	217	220
	<u>304</u>	<u>263</u>	<u>266</u>

10 Investments in associates

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Beginning of year	72,768	64,135	63,782
Acquisition of associates (Note 26(a))	—	—	13,795
New investments in associates	23,725	—	4,500
Share of associates' results	999	(353)	1,258
Dividends declared	(4,014)	—	(4,524)
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a))*	(26,447)	—	—
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in Shanghai Boteng Welding Consumable Co., Ltd. (Note 34(b))*	(2,896)	—	—
End of year	64,135	63,782	78,811

The particulars of the associates of the Group during the Relevant Periods, all of which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group during the Relevant Periods			Principle activities
			As at December 31,			
			2008	2009	2010	
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	November 20, 2004, Shanxi, the PRC	RMB 18,000,000	22.95%	22.95%	22.95%	Coating service provision
CNOOC Tube-Cote Coating Co., Ltd.	September 18, 2006, Tianjin, the PRC	RMB 20,000,000	20.4%	20.4%	20.4%	Coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	April 30, 2007, Jiangsu, the PRC	RMB 105,880,000	41%	41%	41%	Manufacturing and distribution of special steel
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	February 12, 2007, Shandong, the PRC	RMB 20,000,000	—	—	45%	Coating service provision
Anshan Haidelong Anti-Corrosion Engineering Co., Ltd.	November 22, 2010, Liaoanng, the PRC	RMB 15,000,000	—	—	30%	Coating service provision

* The Group accounted for investments in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and Shanghai Boteng Welding Consumable Co., Ltd. as investments in associates before 2008. In 2008, the Group acquired further interests in these two companies. After the acquisition, the Group has the power to govern the financial and operating policies of these companies by securing a majority voting rights in the meeting of Board of Directors. Therefore, these companies are regarded as subsidiaries of the Group since 2008. Details see Note 34.

The Group's interests in its associates and certain of its key financial information attributable to the Group are as follows:

Name	Assets	Liabilities	Revenues	Profits / (Losses)	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2008	94,389	30,254	50,709	999	64,135
Year ended December 31, 2009	128,451	64,669	69,400	(353)	63,782
Year ended December 31, 2010	109,294	30,483	55,941	1,258	78,811

There were no contingent liabilities relating to the Group's interests in its associates, and no contingent liabilities in the associates themselves.

11 Investments in jointly controlled entities

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.(a)	—	4,067	6,279
Investments and long-term receivables in Almansoori Hilong Petroleum Pipe Company (b)	19,203	11,442	—
	<u>19,203</u>	<u>15,509</u>	<u>6,279</u>

(a) Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Beginning of year	—	—	4,067
New investment in the joint controlled entity	—	5,000	—
Share of the jointly controlled entity's result	—	510	1,950
Elimination of unrealized profit	—	(1,443)	262
End of year	<u>—</u>	<u>4,067</u>	<u>6,279</u>

(b) Investments and a long-term receivable in Almansoori Hilong Petroleum Pipe Company

The Group has a long-term receivable to Almansoori Hilong Petroleum Pipe Company, which is interest-free and do not have fixed payment term. As the Group is neither planned nor likely to settle the long-term receivable in the foreseeable future, the Group regards the long-term receivable as a net investment in Almansoori Hilong Petroleum Pipe Company.

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Beginning of year	9,441	19,203	11,442
New investment in the joint controlled entity	12,372	6,309	8,844
Share of the jointly controlled entity's result	(1,646)	(14,042)	(18,706)
Elimination of unrealized profit	(964)	(28)	(1,620)
Exchange differences	—	—	40
End of year	<u>19,203</u>	<u>11,442</u>	<u>—</u>

The particulars of the jointly controlled entities of the Group during the Relevant Periods, which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group during the Relevant Periods			Principle activities
			As at December 31,			
			2008	2009	2010	
Almansoori Hilong Petroleum Pipe Company	November 6, 2006, Emirate of Abu Dhabi	AED 1,000,000	49%	49%	49%	Manufacturing and servicing of drill pipes and coating
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	January 13, 2009, Liaoning, the PRC	RMB 10,000,000	—	50%	50%	Coating service provision

The Group's interests in its jointly controlled entities and certain of its key financial information attributable to the Group are as follows:

Name	Assets	Liabilities	Revenues	Losses	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2008	50,193	30,990	—	(1,646)	19,203
Year ended December 31, 2009	94,727	79,218	16,050	(13,532)	15,509
Year ended December 31, 2010	102,908	96,629	20,431	(16,756)	6,279

12 Deferred income tax assets and deferred income tax liabilities

Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Deferred income tax assets:			
—to be recovered within 12 months	12,357	25,779	39,106
—to be recovered after more than 12 months	(1,818)	(1,514)	(1,555)
	<u>10,539</u>	<u>24,265</u>	<u>37,551</u>
Deferred income tax liabilities:			
—to be settled within 12 months	—	—	—
—to be settled after more than 12 months	(50,357)	(60,991)	(77,061)
	<u>(50,357)</u>	<u>(60,991)</u>	<u>(77,061)</u>

Movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

<u>Deferred income tax assets</u>	Tax losses carried forward	Impairment provision on assets	Accruals	Unrealized profit ^(a)	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008	—	1,321	306	261	198	2,086
Acquisition of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a)) ...	—	5	—	—	28	33
Credited to the combined income statements	—	5,163	994	2,904	1,177	10,238
At December 31, 2008	—	6,489	1,300	3,165	1,403	12,357
Credited/(charged) to the combined income statements	4,559	11	(279)	9,057	378	13,726
At December 31, 2009	4,559	6,500	1,021	12,222	1,781	26,083
Credited/(charged) to the combined income statements	289	(8)	116	12,719	170	13,286
At December 31, 2010	4,848	6,492	1,137	24,941	1,951	39,369

(a) Deferred income tax assets of unrealized profit mainly attributed to the unrealized profit on intra-group transfer of property, plant and equipment and inventories.

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB1,502,000, RMB3,162,000 and RMB2,258,000 as at December 31, 2008, 2009 and 2010 in respect of the accumulated tax losses of subsidiaries incorporated in the PRC. Carrying forward of these tax losses will expire, if unused, in the years ending December 31, 2011 to 2015.

<u>Deferred income tax liabilities</u>	Withholding taxation of the unremitted earnings of certain subsidiaries	Gain on remeasuring existing equity interest in certain associates on acquisition	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2008	—	—	—
Charged to the combined income statements	(50,357)	(1,818)	(52,175)
At December 31, 2008	(50,357)	(1,818)	(52,175)
Charged to the combined income statements	(10,634)	—	(10,634)
At December 31, 2009	(60,991)	(1,818)	(62,809)
Charged to the combined income statements	(16,070)	—	(16,070)
At December 31, 2010	(77,061)	(1,818)	(78,879)

13 Other long-term assets

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Prepayment for investment in a jointly controlled entity	5,000	—	—
Others	513	625	219
	<u>5,513</u>	<u>625</u>	<u>219</u>

14 Inventories**Group**

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	133,142	136,377	135,118
Work in progress	70,872	33,332	54,581
Finished goods	118,341	157,001	166,791
Packing materials	353	521	452
Low value consumables	4,923	5,951	8,580
	<u>327,631</u>	<u>333,182</u>	<u>365,522</u>

The Group recognized losses of RMB30,047,000 in respect of the loss on obsolete inventories and write-down of inventories to their net realizable value for the years ended December 31, 2008. These amounts have been included in the cost of sales in the combined income statements (Note 22).

The cost of inventories recognized as cost of sales amounted to approximately RMB787,898,000, RMB486,977,000, RMB626,374,000 for the years ended December 31, 2008, 2009 and 2010, respectively.

15 Trade and other receivables**Group**

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bills receivable ^(a)	53,314	16,370	5,727
Trade receivables ^(b)			
—Due from related parties (Note 36(c))	58,601	80,277	55,025
—Due from third parties	445,570	541,731	710,648
Less: provision for impairment of receivables ^(d)	(11,442)	(11,522)	(11,033)
Trade receivables—net	492,729	610,486	754,640
Other receivables ^(c)	163,100	242,765	336,271
Prepayments	103,104	49,545	83,110
Trade and other receivables—net	<u>812,247</u>	<u>919,166</u>	<u>1,179,748</u>

As at December 31, 2008, 2009 and 2010, the fair value of the trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at December 31, 2008, 2009 and 2010, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
—RMB	724,582	881,892	996,289
—USD	87,346	32,638	131,655
—CAD	—	—	36,354
—KZT	319	4,636	15,361
—AED	—	—	86
—IDR	—	—	3
	<u>812,247</u>	<u>919,166</u>	<u>1,179,748</u>

(a) The ageing of bills receivable is within 180 days, which is within the credit term.

- (b) The ageing analysis of trade receivables, before provision for impairment, as at December 31, 2008, 2009 and 2010 was as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables, gross			
—Within 90 days	229,095	329,987	444,062
—Over 90 days and within 180 days	38,390	65,533	202,662
—Over 180 days and within 360 days	167,814	104,964	50,981
—Over 360 days and within 720 days	68,866	100,031	37,369
—Over 720 days	6	21,493	30,599
	<u>504,171</u>	<u>622,008</u>	<u>765,673</u>

The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at December 31, 2008, 2009 and 2010, trade receivables of RMB11,442,000, RMB11,522,000 and RMB11,033,000 were impaired and fully provided for impairment loss. The individually impaired receivables mainly relate to certain oversea customers, which are in unexpectedly difficult economic situations.

As at December 31, 2010, trade receivables of RMB178,411,000 were secured for the Group's bank borrowing (Note 19(a)).

As at December 31, 2008, 2009 and 2010, trade receivables of RMB263,634,000, RMB280,499,000 and RMB310,578,000 were past due but not impaired. These relate to the customers that are state-owned companies which have good trading records with the Group. Based on the past experiences, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
—Within 90 days	38,390	65,533	202,662
—Over 90 days and within 180 days	104,612	69,922	46,633
—Over 180 days and within 360 days	86,467	79,528	31,515
—Over 360 days and within 720 days	34,165	55,042	10,558
—Over 720 days	—	10,474	19,210
	<u>263,634</u>	<u>280,499</u>	<u>310,578</u>

- (c) Details of other receivables are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due from related parties (Note 36(c))	127,694	211,325	297,072
Staff advance	18,705	18,536	8,349
Value added tax refund	11,466	223	21,693
Others	5,235	12,681	9,157
	<u>163,100</u>	<u>242,765</u>	<u>336,271</u>

- (d) Movements in impairment of trade receivables are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At beginning of the year	(507)	(11,442)	(11,522)
Provision for impairment (Note 22)	(10,935)	(80)	—
Reversal of impairment (Note 22)	—	—	489
At the end of the year	<u>(11,442)</u>	<u>(11,522)</u>	<u>(11,033)</u>

Impairment provision for trade receivables is charged to administrative expenses in the combined income statements. Amounts charged to the allowance account are generally written off when there is no expectation of recovery of additional cash.

16 Cash and cash equivalents and restricted cash**Group**

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand ^(a)	254,398	165,600	299,506
Less: Restricted cash ^(b)	(33,930)	(23,997)	(52,570)
Cash and cash equivalents	<u>220,468</u>	<u>141,603</u>	<u>246,936</u>
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand are denominated in:			
—RMB	238,329	153,770	145,845
—USD	15,487	8,086	115,656
—KZT	506	3,744	3,668
—EURO	76	—	42
—HK\$	—	—	33,728
—AED	—	—	457
—IDR	—	—	110
	<u>254,398</u>	<u>165,600</u>	<u>299,506</u>
Restricted cash is denominated in:			
—RMB	33,722	23,548	48,357
—USD	208	68	4,164
—KZT	—	381	49
	<u>33,930</u>	<u>23,997</u>	<u>52,570</u>

- (a) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates of 0.69%, 0.36% and 0.36% for the year ended December 31, 2008, 2009 and 2010, respectively.
- (b) Restricted cash represents guaranteed deposits held in a separate reserve account pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreement (Note 19(a)).
- (c) The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Company

All the cash and cash equivalents of the Company are not restricted and denominated in HK dollars.

17 Share capital**Group and Company**

	Note	Number of ordinary shares	Nominal value of ordinary shares (HK\$)	Equivalent nominal value of ordinary share (RMB)
Authorized:				
Ordinary shares of HK\$ 0.1 each	(a)	<u>3,800,000</u>	<u>380,000</u>	<u>334,324</u>
Issued:				
Ordinary shares of HK\$ 0.1 each issued upon incorporation on October 15, 2008 and December 31, 2008 and 2009	(a)	1	0.1	0.09
Share issued and paid on November 30, 2010	(b)	<u>952,972</u>	<u>952,972</u>	<u>810,846</u>
As at December 31, 2010		<u>952,973</u>	<u>952,972</u>	<u>810,846</u>

- (a) The Company was incorporated in Cayman Islands on October 15, 2008 with an authorized share capital of HK\$380,000 divided into 3,800,000 shares of a nominal value of HK\$0.10 each.
- (b) On November 30, 2010, pursuant to a board resolution, the Company issued 953,299 shares with a nominal value of HK\$1.0 each to Hilong Group Limited, including 952,972 shares paid on November 30, 2010 and 327 shares paid on March 7, 2011.
- (c) On January 31, 2011, 46,700 shares of Series A convertible preferred shares (Note 19(b)) was converted to the Company's ordinary share.
- (d) On February 28, 2011, pursuant to the written resolutions of all the shareholders of the Company, the authorized share capital of the Company was diminished by the cancellation of all authorized but unissued Series A convertible preferred shares of HK\$0.1 each of the Company and following such diminution, the authorized share capital of the Company was increased by creation such number of ordinary shares of HK\$0.1 each of the Company necessary to increase the authorized share capital to HK\$3,000,000,000 divided into 30,000,000,000 shares of HK\$0.1 each.
- (e) In March 2011, three family trusts (the "Mr. Zhang's Family Trusts") were established by Mr. Zhang (as settlor) to hold indirect interests in the shares for the benefit of his family members, with Standard Chartered Trust (Cayman) Limited acting as the trustee. Each of Mr. Zhang's Family Trusts holds 100% of the equity interest in the respective BVI entities, which in turn holds equity interest in the Company of 2%, 2% and 5.33%, respectively.

18 Other reserves

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Statutory reserve ⁽¹⁾	54,148	64,799	76,395
Capital reserve	145	145	97
Merger reserve ⁽²⁾	142,205	146,063	(158,820)
	<u>196,498</u>	<u>211,007</u>	<u>(82,328)</u>

(1) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

For the years ended December 31, 2008, 2009 and 2010, RMB44,826,000, RMB10,651,000 and RMB11,596,000 were appropriated to the statutory surplus reserve funds from net profits of certain PRC Subsidiaries.

(2) Merger reserve

	RMB'000
At January 1, 2008	165,085
Contribution to subsidiaries by their then equity owners (Note a(i))	48,281
Consideration paid to the then equity holders for acquisition of subsidiaries under common control (Note b(i))	(71,161)
At December 31, 2008	142,205
Contribution to subsidiaries by their then equity owners (Note a(ii))	3,858
At December 31, 2009	146,063
Contribution to subsidiaries by their then equity owners (Note a(iii))	6,044
Consideration paid/payable to the then equity holders for acquisition or disposal of subsidiaries under common control (Note b(ii))	(310,927)
At December 31, 2010	<u>(158,820)</u>

The Company was incorporated during the year ended December 31, 2008 and the Reorganisation was not completed prior to December 31, 2010. For the purpose of the combined financial statements, the merger reserve in the combined balance sheets as at December 31, 2008, 2009 and 2010 primarily represents: (1) the aggregate of consideration paid/payable for the acquisitions of subsidiaries under common control upon the Reorganisation; and (2) the combined share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

(a) *Contribution to subsidiaries by their then equity owners*

- (i) Represented (1) the acquisition of a further 17.18% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(b)) of RMB13,294,000 by the Hailong International, which reflected as a deemed capital injection to the Group by the Controlling Shareholder; (2) cash injection in Shanxi Tangrong Hilong Drill Tools Co., Ltd. by Hailong International of RMB3,956,000; (3) cash injection in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. by Hailong International of RMB1,215,000; (4) cash injection in Hilong Group of Companies Ltd. by Hailong International of RMB29,816,000. These cash investments were deemed to be injected by the Controlling Shareholder.
- (ii) Represented (1) cash injection by Hailong International in Hilong Group of Companies Ltd. of RMB5,000; (2) cash injection by Hailong International in Hilong Oil Service Ltd. of RMB68,000, and (3) cash injection by Hailong International of RMB3,785,000 in Shanxi Tangrong Hilong Drill Tools Co., Ltd. These cash investments were deemed to be injected by the Controlling Shareholder.
- (iii) Represented cash injection by Hailong International in Shanxi Tangrong Hilong Drill Tools Co., Ltd. of RMB6,044,000, which reflected as a deemed capital injection to the Group by the Controlling Shareholder.

(b) *Consideration paid /payable to the then equity holders for acquisition or disposal of subsidiaries under common control*

- (i) Represented: (1) the acquisition by Hilong Group of Companies Ltd. of 51% equity interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. originally held by Huashi Hailong at a consideration of RMB49,568,000, and (2) the acquisition by Hilong Group of Companies Ltd. of 25% equity interest in Jiangsu Hilong Drill Pipe Co., Ltd. originally held by Huashi Hailong at a consideration of RMB21,593,000.
- (ii) Represented: (1) the acquisition by Hilong Energy Limited of 25% equity interest in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd., 25% equity interest in Shanxi Tangrong Hilong Drill Tools Co., Ltd., 17.18% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and 25% equity interest in Shanghai Hilong Drill Pipe Co., Ltd. from Hailong International of RMB40,888,000; (2) the acquisition by Hilong Energy Limited of 100% equity interest in Hilong Group of Companies Ltd. from Hailong International of RMB269,024,000; (3) the acquisition by Hilong Energy Limited of 100% equity interest in Hilong Investement from Hailong International of RMB667,000; and (4) the disposal 75% equity interest in Tianjin Shuanghai Petroleum Steel's Pipe Co., Ltd to Huashi Hailong with a disposal loss of RMB348,000 (Note 35).

19 Borrowings**Group**

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current			
Bank borrowings—unsecured	15,300	10,600	5,900
Related party borrowings ^(c)	5,112	11,796	10,565
Less: Current portion of non-current borrowings	(4,700)	(10,318)	(15,265)
	<u>15,712</u>	<u>12,078</u>	<u>1,200</u>
Current			
Bank borrowings—secured ^(a)	159,519	264,000	401,758
Bank borrowings—unsecured	132,000	152,000	217,000
Series A convertible preferred shares ^(b)	—	—	169,401
Current portion of non-current borrowings	4,700	10,318	15,265
	<u>296,219</u>	<u>426,318</u>	<u>803,424</u>
	<u>311,931</u>	<u>438,396</u>	<u>804,624</u>

The Group's borrowings are denominated in the following currencies:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Borrowings:			
—RMB	306,300	426,600	665,301
—HK\$	—	—	128,758
—USD	5,631	11,796	10,565
	<u>311,931</u>	<u>438,396</u>	<u>804,624</u>

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	6 months or less	Between 6 and 12 months	Between 1 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2008	306,300	—	5,631	311,931
As at December 31, 2009	426,600	—	11,796	438,396
As at December 31, 2010	<u>804,624</u>	<u>—</u>	<u>—</u>	<u>804,624</u>

The maturity of borrowings is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
On demand or within 1 year	296,219	426,318	803,424
Between 1 and 2 years	9,812	10,878	1,200
Between 2 and 5 years	5,900	1,200	—
	<u>311,931</u>	<u>438,396</u>	<u>803,424</u>

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Borrowings—current			
—RMB	<u>7.28%</u>	<u>5.35%</u>	<u>5.78%</u>
—HK\$	<u>—</u>	<u>—</u>	<u>6.5%</u>
Borrowings—non-current			
—RMB	<u>7.25%</u>	<u>5.31%</u>	<u>5.31%</u>
—USD	<u>10%</u>	<u>10%</u>	<u>10%</u>

The fair value of current borrowings approximates their carrying amount as the discounting impact is not significant.

The carrying amounts and fair value of the non-current borrowings are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount			
Bank borrowings—unsecured	10,600	5,900	1,200
Related party borrowings	5,112	6,178	—
	<u>15,712</u>	<u>12,078</u>	<u>1,200</u>
Fair value			
Bank borrowings—unsecured	9,826	5,479	1,124
Related party borrowings	5,112	6,178	—
	<u>14,938</u>	<u>11,657</u>	<u>1,124</u>

The fair value of bank borrowings and related party borrowings is based on cash flows discounted using the annual interest rate published by the People's Bank of China and the National Bank of Kazakhstan for long-term bank loans as at each balance sheet date, respectively.

The Group had the following undrawn bank borrowing facilities:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
RMB facilities	—	60,700	—

(a) *Bank borrowings—secured*

Bank borrowings were secured as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Guaranteed by related parties ⁽ⁱ⁾	107,000	212,000	140,000
Secured by land use rights and guaranteed by related parties ⁽ⁱⁱ⁾	45,000	—	—
Secured by property, plant and equipment and land use rights ⁽ⁱⁱⁱ⁾	7,000	7,000	7,000
Secured by bank deposit ^(iv)	519	—	10,000
Secured by property, plant and equipment, land use rights and guaranteed by related parties ^(v)	—	45,000	116,000
Secured by property, plant and equipment, accounts receivables and guaranteed by related parties ^(vi)	—	—	128,758
	<u>159,519</u>	<u>264,000</u>	<u>401,758</u>

i. The bank borrowings of RMB57,000,000 and RMB42,000,000 were guaranteed by Huashi Hailong as at December 31, 2008 and 2009, respectively;

The bank borrowings of RMB30,000,000, RMB100,000,000 and RMB100,000,000 were guaranteed by Mr. Zhang Jun as at December 31, 2008, 2009 and 2010, respectively;

The bank borrowings of RMB20,000,000, RMB70,000,000 and RMB40,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun as at December 31, 2008, 2009 and 2010, respectively;

ii. The bank borrowings of RMB45,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun, the Controlling Shareholder, and secured by certain land use rights (Note 8) of the Group, with total carrying amount of RMB40,039,000 as at December 31, 2008;

iii. The bank borrowings of RMB7,000,000 were secured by certain buildings and facilities (Note 7) and land use rights (Note 8) of the Group, with aggregate carrying amount of RMB4,212,000, RMB4,042,000 and RMB3,871,000 as at December 31, 2008, 2009 and 2010, respectively;

- iv. The bank borrowings of RMB519,000 and RMB10,000,000 were secured by certain bank deposit (Note 16(b)) of the Group, with total carrying amount of RMB517,000 and RMB5,000,000 as at December 31, 2008 and 2010, respectively;
- v. The bank borrowings of RMB45,000,000 and RMB116,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun, and secured by certain buildings and facilities (Note 7) and land use rights (Note 8) of the Group, with aggregate carrying amount of RMB131,527,000 and RMB124,287,000 as at December 31, 2009 and 2010, respectively; and
- vi. The bank borrowings of RMB128,758,000 were guaranteed by Mr. Zhang Jun, and secured by certain machinery and equipment with carrying amount of RMB87,906,000 (Note 7) and certain trade receivables with carrying amount of RMB178,411,000 (Note 15) of the Group as at December 31, 2010.

(b) Series A convertible preferred shares

On August 23, 2010, pursuant to an investment agreement, UMW China Ventures (L) Ltd. ("UMW CV"), the Non-Controlling Shareholder, agreed to subscribe to 46,700 Series A convertible preferred shares issued by the Company at a price of RMB3,595 per share with total amount of RMB167,890,000. The significant terms of Series A convertible preferred shares are summarized as follows:

i. Dividends

The holder of Series A convertible preferred shares would be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to 8% of the purchase price per annum.

ii. Conversion

Unless otherwise agreed by the parties, the holder of Series A convertible preferred shares shall convert all of its Series A convertible preferred shares into ordinary shares before the Company submits its listing application on the Main Board of the Stock Exchange of Hong Kong Limited ("HKSE"). The conversion price will be the purchase price of RMB3,595 per share, resulting in an initial conversion ratio of 1-for-1.

iii. Re-conversion

Unless otherwise agreed by the Parties, the holder of Series A convertible preferred shares shall re-convert all of its ordinary shares to Series A convertible preferred shares if its listing application is not acceptable to or is rejected by the HKSE. The re-conversion price will be the conversion price of RMB3,595 per share, resulting in an re-conversion ratio of 1-for-1.

iv. Redemption

At any time commencing on the Series A convertible preferred shares issue date, provided a redemption event has occurred, which is defined in the master investment agreement, UMW CV has the right to sell to the Company, and the Company shall be obliged to redeem the Series A shares. Upon the successful Initial Public Offering ("IPO"), the redemption option shall cease to have any effect.

Redemption amount is equal to the principal amount of the subscription to be redeemed, plus the agreed interest of 20% per annum, minus any actually paid returns to Series A convertible preferred shares.

The redemption events are summarized as follows:

- IPO has not occurred on or before June 30, 2011;
- Prior to IPO, Mr. Zhang Jun, the Controlling Shareholder, and/or Hilong Group Limited sell or transfer, in one or more transactions, greater than 20% (20% not inclusive) of the share capital of the Company owned by it on the date hereof to one or more third parties; or
- Prior to IPO, in one or more transactions, greater than 25% equity interest of Hilong Group of Companies Co., Ltd. has been transferred on the date hereof to one or more third parties.

The redemption price is not approximately equal on exercise date to the amortized cost of the host debt instrument, so the redemption feature is not closely related to the host contract. The conversion/re-conversion features are not closed to the host contract as it involves a put of both the debt host and the derivative conversion feature. Accordingly, these features shall be bifurcated and separately accounted for as derivative financial instruments. As these derivatives are inter-dependent, they shall be bundled together and treated as a single compound embedded derivative. The fair value of the derivatives is measured by using valuation techniques (Note 4.3).

The liability component is measured as the residual amount after separating the fair value of derivatives as mentioned above. The liability component is reflected as borrowings in the combined financial statements and the effective interest rate is 8.15%.

The movement for Series A convertible preferred shares after its issuance is as follows:

	<u>The liability component (Borrowings)</u>	<u>Derivative financial instruments</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
As at August 26, 2010 (Issuance date)	164,800	3,090	167,890
Changes in fair value	—	(2,957)	(2,957)
Amortization using the effective interest method (Note 27)	<u>4,601</u>	<u>—</u>	<u>1,268</u>
As at December 31, 2010	<u>169,401</u>	<u>133</u>	<u>169,534</u>

The Series A convertible preferred shares of RMB167,890,000 was secured by certain machinery and equipment (Note 7) of the Group, with total carrying amount of RMB69,298,000 as at December 31, 2010.

(c) Related party borrowing

Related party borrowing represented loans borrowed from Hailong International, which are unsecured, interest free and repayable within 1 year as at December 31, 2010 (December 31, 2009: RMB6,178,000 repayable within 1 year and RMB5,618,000 between 1 to 2 years). The related party borrowing was recognized initially at its fair value and subsequent measured at amortized cost using effective interest method (Note 27).

Company

	<u>As at December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Current			
Bank borrowings—secured (Note 19(a)(ii))	—	—	128,758
Series A convertible preferred shares (Note 19(b))	<u>—</u>	<u>—</u>	<u>169,401</u>
	<u>—</u>	<u>—</u>	<u>298,159</u>

20 Deferred revenue

Group

Deferred revenue represents government grants relating to certain research projects and production lines. Government grants relating to research projects are recognized in the combined income statements over the financial period necessary to match them with the costs that they are intended to compensate; government grants relating to production line are deferred and recognized in the combined income statements on a straight-line basis over the expected useful lives of the related production lines.

	<u>As at December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Government grants,			
Current—relating to certain research projects	1,287	5,574	405
Non-current—relating to certain production lines	<u>—</u>	<u>—</u>	<u>13,650</u>
	<u>1,287</u>	<u>5,574</u>	<u>14,055</u>

21 Trade and other payables

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bills payable	85,226	90,300	98,176
Trade payables:			
—Due to related parties (Note 36(c))	61,452	60,132	41,256
—Due to third parties	261,239	141,924	239,797
Other payables:			
—Due to related parties (Note 36(c))	96,412	189,707	319,301
—Due to third parties	55,333	39,004	67,759
Staff salaries and welfare payables	9,497	12,173	10,098
Advance from customers	50,790	56,886	96,084
Interest payables	580	423	475
Accrued taxes other than income tax	2,134	23,026	23,820
Dividends payable	94,073	45,513	51,852
Other liabilities	8,464	3,696	4,804
	<u>725,200</u>	<u>662,784</u>	<u>953,422</u>

As at December 31, 2008, 2009 and 2010, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at December 31, 2008, 2009 and 2010, trade and other payables were denominated in the following currencies:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
—RMB	686,404	580,810	714,575
—USD	32,141	73,468	233,121
—KZT	6,653	8,498	5,726
—CAD	2	8	—
	<u>725,200</u>	<u>662,784</u>	<u>953,422</u>

The ageing analysis of the trade payables, including amounts due to related parties which were trade in nature, was as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables			
—Within 90 days	171,371	57,372	195,316
—Over 90 days and within 180 days	19,433	24,127	26,855
—Over 180 days and within 360 days	90,153	46,920	1,694
—Over 360 days and within 720 days	37,160	39,242	5,411
—Over 720 days	4,574	34,395	51,777
	<u>322,691</u>	<u>202,056</u>	<u>281,053</u>

Company

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fees payable on the establishment of loan facility	—	—	3,982

The ageing of trade and other payables of the Company are within 90 days.

22 Expenses by nature**Group**

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress (Note 14)	(75,987)	(1,120)	(31,039)
Raw materials and consumable used (Note 14)	863,885	488,097	657,413
Employee benefit expenses (Note 23)	71,283	88,628	113,239
Utilities and electricity	49,383	44,788	55,760
Transportation expenses	43,321	44,929	48,926
Depreciation (Note 7)	26,475	46,498	55,700
Sales commission and staff's traveling and lodging expenses	18,628	8,888	9,560
Marketing and promotion expenses	18,406	14,858	16,051
Entertainment expenses	21,220	28,851	27,246
Research and development expense	17,443	22,324	27,617
Write-down of inventory balances (Note 14)	30,047	—	—
Traveling and communication expenses	12,461	12,491	16,637
Taxes and levies	4,131	5,830	7,592
Consulting expenses	10,210	19,614	13,797
Amortization of lease prepayments (Note 8)	1,039	1,007	1,033
Operating lease payments	7,284	11,364	13,008
Amortization of intangible assets (Note 9)	304	263	266
Auditor's remuneration	1,306	1,546	4,454
Provision/(reversal) for impairment of receivables (Note 15)	10,935	80	(489)
IPO expense	—	—	8,518
Miscellaneous	2,164	2,934	5,803
Total cost of sales, selling and marketing and administrative expenses	<u>1,133,938</u>	<u>841,870</u>	<u>1,051,092</u>

23 Employee benefit expenses (including director's emoluments)**Group**

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Wages and salaries	61,735	73,466	93,871
Other social security costs	9,548	15,162	19,368
	<u>71,283</u>	<u>88,628</u>	<u>113,239</u>

24 Directors' and senior management's emoluments**Group***(a) Director's emoluments*

Director's emoluments for the year ended December 31, 2008, 2009 and 2010 are set out as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	740	683	860
Discretionary bonuses	281	323	187
Other benefits including pension	32	32	65
	<u>1,053</u>	<u>1,038</u>	<u>1,112</u>

No director has waived or agreed to waive any emoluments.

Director's emoluments are set out below:

	Fees	Salaries	Discretionary	Other	Total
	RMB'000	RMB'000	bonuses	benefits	
			RMB'000	including	RMB'000
				pension	
				RMB'000	
					RMB'000
Year ended December 31, 2008					
Executive Directors					
Zhang Jun (張軍)	—	—	—	—	—
Zhang Shuman (張姝嫻)	—	141	—	7	148
Ji Min (紀敏)	—	—	—	—	—
Non-executive Director					
Yuan Pengbin (袁鵬斌)	—	360	140	22	522
Wang Tao (汪濤)	—	239	141	3	383
Datuk Syed Hisham	—	—	—	—	—
Independent Non-executive Directors					
Liu Qihua (劉奇華)	—	—	—	—	—
Wang Tao (王濤)	—	—	—	—	—
Lee Siang Chin	—	—	—	—	—
	<u>—</u>	<u>740</u>	<u>281</u>	<u>32</u>	<u>1,053</u>
Year ended December 31, 2009					
Executive Directors					
Zhang Jun (張軍)	—	—	—	—	—
Zhang Shuman (張姝嫻)	—	143	14	7	164
Ji Min (紀敏)	—	—	—	—	—
Non-executive Director					
Yuan Pengbin (袁鵬斌)	—	360	140	22	522
Wang Tao (汪濤)	—	180	169	3	352
Datuk Syed Hisham	—	—	—	—	—
Independent Non-executive Directors					
Liu Qihua (劉奇華)	—	—	—	—	—
Wang Tao (王濤)	—	—	—	—	—
Lee Siang Chin	—	—	—	—	—
	<u>—</u>	<u>683</u>	<u>323</u>	<u>32</u>	<u>1,038</u>

	Fees	Salaries	Discretionary bonuses	Other benefits including pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2010					
Executive Directors					
Zhang Jun (張軍)	—	—	—	—	—
Zhang Shuman (張姝嫻)	—	144	20	8	172
Ji Min (紀敏)	—	162	—	22	184
Non-executive Director					
Yuan Pengbin (袁鵬斌)	—	371	—	31	402
Wang Tao (汪濤)	—	183	167	4	354
Datuk Syed Hisham	—	—	—	—	—
Independent Non-executive Directors					
Liu Qihua (劉奇華)	—	—	—	—	—
Wang Tao (王濤)	—	—	—	—	—
Lee Siang Chin	—	—	—	—	—
	—	<u>860</u>	<u>187</u>	<u>65</u>	<u>1,112</u>

(b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group included one director for the year ended December 31, 2008. His emolument is reflected in the analysis presented above. The emoluments payable to the remaining individuals respectively for the year ended December 31, 2008, 2009 and 2010 are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	1,276	1,450	2,475
Discretionary bonuses	1,170	2,920	2,520
Other benefits including pension	116	254	159
	<u>2,562</u>	<u>4,624</u>	<u>5,154</u>

The emoluments fell within the following bands:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Emolument bands	4	4	3
Nil to HK\$1,000,000 (equivalent to RMB860,000)	—	1	2
HK\$1,000,001 to HK\$2,000,000 (equivalent to RMB860,000 to RMB1,720,000)	<u>4</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

25 Other income**Group**

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Gain on remeasuring existing interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a)) on acquisition	5,279	—	—
Gain on remeasuring existing interest in Shanghai Boteng Welding Consumable Co., Ltd. (Note 34(b)) on acquisition	1,994	—	—
	<u>7,273</u>	<u>—</u>	<u>—</u>

26 Other gains—net**Group**

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(Loss)/gain on disposal of property, plant and equipment—net	(578)	(1,510)	107
Changes in the fair value for Series A convertible preferred shares (Notes 19(b))	—	—	2,957
Exchange gain/(loss)	245	(3,557)	(1,514)
Government grants	1,967	7,709	7,995
Negative goodwill ^(a)	—	—	5,420
Donation expenses	(515)	(110)	(148)
Others	(266)	228	268
	<u>853</u>	<u>2,760</u>	<u>15,085</u>

(a) The Group acquired 45% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. in September 2010 from Hailong International at a cash consideration of RMB8,375,000. Details of net assets acquired and goodwill are as follows:

Purchase consideration	8,375
The fair value of net assets acquired	(13,795)
Negative goodwill	<u>(5,420)</u>

As at December 31, 2010, the purchase consideration has not been paid.

27 Finance costs—net**Group**

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Finance income			
—Interest income derived from bank deposits	795	941	700
—Initial recognition of an interest-free related party borrowing using effective interest method (Note 19(c))	1,035	802	—
	<u>1,830</u>	<u>1,743</u>	<u>700</u>
Finance cost			
—Amortization of an interest-free related party borrowing using effective interest method (Note 19(c))	—	(526)	(1,073)
—Amortization of the liability component of Series A convertible preferred shares using effective interest method (Note 19(b))	—	—	(4,601)
—Interest expense on bank borrowings	(15,177)	(19,173)	(24,802)
	<u>(15,177)</u>	<u>(19,699)</u>	<u>(30,476)</u>
Finance costs—net	<u>(13,347)</u>	<u>(17,956)</u>	<u>(29,776)</u>

28 Income tax expense**Group**

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current income tax	24,205	28,781	42,491
Deferred income tax (Note 12)	41,937	(3,092)	2,784
Income tax expense	<u>66,142</u>	<u>25,689</u>	<u>45,275</u>

The difference between the actual income tax charge in the combined income statements and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before tax	561,574	135,705	275,181
Tax calculated at statutory tax rates applicable to each group entity	73,442	19,196	40,995
Tax effect of:			
Expenses not deductible for tax purpose	345	5,006	2,583
Tax effect of tax exemption and reduced tax rate under tax holiday ^(a)	(7,356)	(125)	(32)
Additional deduction for research and development expense ^(b)	(297)	(1,236)	—
Income not subject to income tax	(1,494)	(314)	(529)
Unrecognized tax losses carried forward (Note 12)	1,502	3,162	2,258
Tax charge	<u>66,142</u>	<u>25,689</u>	<u>45,275</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Enterprises incorporated in British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the years ended December 31, 2008, 2009 and 2010.

Enterprises incorporated in other places are subject to income tax rates of 20% to 25% prevailing in the places in which the Group operated throughout the Relevant Periods.

The income tax provision of the Group in respect of its operations in the Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods based on existing legislations, interpretations and practices.

According to the Corporate Income Tax Law of the PRC (the "CIT Law"), the income tax provision of the Group in respect of its operations in the Mainland China has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of their earnings generated from January 1, 2008.

(a) Tax effect of tax exemption and reduced tax rate under tax holiday

Certain subsidiaries of the Group enjoyed preferential income tax rates throughout the Relevant Periods as foreign investment enterprises in the PRC, and have obtained approvals from the relevant tax authorities in the PRC for their entitlement to exemption from income tax for the first two years and 50% reduction in the income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years conforms to the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC.

The effective income tax rate for the companies with tax preferential treatment throughout the Relevant Periods are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Hilong Group of Companies Ltd	—	12.5%	12.5%
Shanghai Hilong Drill Pipe Co., Ltd	—	12.5%	12.5%
Hilong Drill Pipe (Wuxi) Co., Ltd	12.5%	12.5%	12.5%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	15%	15%	15%
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.*	25%	15%	15%
Shanghai Hilong Shine New Material Co., Ltd.*	12.5%	12.5%	15%
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a)) . . .	12.5%	25%	25%

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax rate of 15% for the three years from 2008 to 2010.

* Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax rate of 15% for the three years from 2009 to 2011.

* Shanghai Hilong Shine New Material Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax of 15% from 2010 to 2012 after the tax holiday as mentioned above.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC throughout the Relevant Periods.

(b) Additional deduction for research and development expense

Pursuant to the CIT Law, an additional tax deduction is allowed based on the actual research and development expense charged to the combined income statements calculated at 50% of such expenses incurred if approved by tax authorities.

29 Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the presentation of the results for the Relevant Periods on a combined basis as disclosed in Note 2 above.

30 Dividends

No dividend has been paid or declared by the Company since its incorporation. Dividends disclosed for the years ended December 31, 2008, 2009 and 2010 represent dividends declared or proposed by the relevant subsidiaries now comprising the Group out of their retained earnings to the then equity holders of the respective companies, after eliminating intra-group dividends.

31 Cash generated from operations**Group***(a) Reconciliation of profit before income tax to net cash generated from operations*

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit for the year before income tax	561,574	135,705	275,181
Adjustments for:			
—Depreciation of property, plant and equipment (Note 7)	26,475	46,498	55,700
—Amortization of lease prepayments (Note 8)	1,039	1,007	1,033
—Amortization of intangible assets (Note 9)	304	263	266
—Provision/(reversal) for impairment of receivables (Note 15)	10,935	80	(489)
—Write-down of inventory balances (Note 14)	30,047	—	—
—Share of results of associates (Note 10)	(999)	353	(1,258)
—Share of results of jointly controlled entities (Note 11)	1,646	13,532	16,756
—Initial recognition of an interest free related party borrowing using effective interest method (Note 27)	(1,035)	(802)	—
—Finance costs (Note 27)	15,177	19,699	30,476
—Loss/(gain) on disposal of property, plant and equipment (Note 26)	578	1,510	(107)
—Gain on the changes of the fair values for the Series A convertible preferred shares (Note 19(b))	—	—	(2,957)
—Negative goodwill (Note 26)	—	—	(5,420)
—Gain on remeasuring existing interest in associates on acquisition (Note 25)	(7,273)	—	—
	<u>638,468</u>	<u>217,845</u>	<u>369,181</u>
Changes in working capital:			
—Increase in trade and other receivables	(258,184)	(106,919)	(260,582)
—Increase in inventories	(128,192)	(5,551)	(32,340)
—(Increase)/decrease in restricted cash	(20,595)	9,933	(23,573)
—Increase/(decrease) in trade and other payables	67,171	(7,725)	171,136
—Cash generated from operations	<u>298,668</u>	<u>107,583</u>	<u>223,822</u>

(b) Proceeds from disposal of property, plant and equipment

In the combined cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net book amount (Note 7)	1,071	4,132	402
(Loss)/gain on disposal of property, plant and equipment (Note 26)	(578)	(1,510)	107
Receipt of proceeds from sales of property, plant and equipment	10,000	—	—
Proceeds from disposal of property, plant and equipment	<u>10,493</u>	<u>2,622</u>	<u>509</u>

32 Contingencies

As at December 31, 2008, 2009 and 2010, the Group did not have any significant contingent liabilities.

33 Commitments**Group***(a) Capital commitments*

Capital expenditure contracted for at each balance sheet date, but not yet incurred is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	<u>165,732</u>	<u>143,109</u>	<u>65,918</u>

(b) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
No later than 1 year	3,662	3,544	4,176
Later than 1 year and no later than 3 year	4,059	3,789	5,249
Later than 3 years	<u>13,504</u>	<u>11,723</u>	<u>10,020</u>
	<u>21,225</u>	<u>19,056</u>	<u>19,445</u>

34 Business combination**Group***(a) Acquisition of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.*

The Group originally held 41% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. through Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., i.e. the Group's effective equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. was 20.91%. In February 2008, Hailong International acquired an additional 17.18% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. from ACE Tubular Technologies PET Ltd., an independent third party company incorporated

in Singapore. After the acquisition, the Group's effective equity interest increased from 20.91% to 38.09%. The directors of the Company are of the opinion that the Group has the power to govern the financial and operating policies of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. by securing a majority voting rights in the meeting of Board of Directors, therefore, Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. is regarded as a subsidiary of the Group.

The acquired business contributed revenues of RMB64,151,000 and net profit of RMB18,043,000 to the Group for the year ended December 31, 2008. If the acquisition had occurred on January 1, 2008, the combined revenue and profit would have been approximately the same.

None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.

	<u>RMB'000</u>
Consideration	
Purchase consideration	13,294
Fair value of equity interest held before the business combination, including the equity interest held by the non-controlling interest of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd	<u>31,726</u>
Total consideration	<u>45,020</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	14,570
Deferred income tax assets (Note 12)	33
Inventory	5,817
Trade and other receivables	58,252
Cash and cash equivalents	3,854
Trade and other payables	(15,848)
Current income tax liabilities	<u>(2,175)</u>
Total identifiable net assets	<u>64,503</u>
Non-controlling interest	(26,976)
Goodwill (Note 9(b))	<u>7,493</u>
	<u><u>45,020</u></u>

The non-controlling interest was measured at its proportionate share of the acquiree's identifiable net assets.

The Group recognized a gain of RMB5,279,000 as a result of remeasuring at fair value its 20.91% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. held before the business combination. The gain is included in other income in the Group's combined income statements for the year ended December 31, 2008 (Note 25).

(b) Acquisition of Shanghai Boteng Welding Consumable Co., Ltd.

In March 2008, the Group acquired an additional 25% equity interest in Shanghai Boteng Welding Consumable Co., Ltd. from Xi'an Nate Petroleum Technology Co., Ltd. (西安納特石油技術有限責任公司), an independent third party company incorporated in the PRC. Consequently, the Group's equity interest in Shanghai Boteng Welding Consumable Co., Ltd. increased from 29% to 54%.

The acquired business contributed revenues of RMB16,839,000 and net profit of RMB9,407,000 to the Group for the year ended December 31, 2008. If the acquisition had occurred on January 1, 2008, the contribution to revenue would have been RMB22,962,000 and the contribution to the net profit would have been RMB16,174,000.

None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Shanghai Boteng Welding Consumable Co., Ltd. and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Shanghai Boteng Welding Consumable Co., Ltd.'s net assets.

	<u>RMB'000</u>
Consideration	
Purchase consideration	4,216
Fair value of equity interest held before the business combination	4,890
Total consideration	<u>9,106</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	2,236
Inventory	1,031
Trade and other receivables	17,437
Cash and cash equivalents	1,956
Trade and other payables	(12,601)
Current income tax liabilities	(67)
Total identifiable net assets	<u>9,992</u>
Non-controlling interest	(4,596)
Goodwill (Note 9(b))	3,710
	<u>9,106</u>

The non-controlling interest was measured at its proportionate share of the acquiree's identifiable net assets.

The Group recognized a gain of RMB1,994,000 as a result of remeasuring at fair value its 25% equity interest in Shanghai Boteng Welding Consumable Co., Ltd. held before the business combination. The gain is included in other income in the Group's combined income statements for the year ended December 31, 2008 (Note 25).

35 Disposals of a subsidiary

Group

On to December 2010, the Group disposed of its entire 75% equity interest in Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. to Huashi Hailong, which is under the common control of the Controlling Shareholder. The disposal was accounted for as distribution of dividend to the Controlling Shareholder and recorded in the merger reserve.

	<u>RMB'000</u>
Total consideration	13,155
Net assets disposed	<u>(13,551)</u>
Loss on disposal	(396)
Amounts previously recognized in other comprehensive income	48
Loss on disposal recognized in merger reserve (Note 18(2))	<u>(348)</u>

The aggregated assets and liabilities in respect of the above disposals were as follows:

	<u>RMB'000</u>
Cash and cash equivalents	100
Trade and other receivables	12,210
Lease prepayments	1,635
Property, plant and equipment	4,887
Trade and other payables	(664)
Current income tax liabilities	<u>(100)</u>
Net assets	18,068
Equity interests rate	<u>75%</u>
Net assets disposed	13,551
Net loss on disposal	<u>(396)</u>
Total consideration	13,155
Less: other receivables due from related parties	<u>(13,155)</u>
Cash received	—
Less: Cash and cash equivalents in the subsidiary disposed	<u>(100)</u>
Cash outflow disposals	<u><u>(100)</u></u>

36 Related party transactions

Group and Company

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended December 31, 2008, 2009 and 2010, and balances arising from related party transactions as at December 31, 2008, 2009 and 2010.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

	<u>Chinese name</u>
Hailong International	n.a.
Hilong Oil Pipe Co., Ltd	n.a.
Hilong USA LLC	n.a.
Huashi Hailong	北京華實海隆石油機械設備有限公司
Beijing Huashi Hilong Oil Investment Co., Ltd	北京華實海隆石油投資公司
Huashi Audio Visual Investment (Beijing) Co., Ltd	華視影視投資北京有限公司
Jiangyan Hilong Wire Welding Co., Ltd	薑堰市海隆耐磨帶焊接有限公司
Hebei Zhongxin Precision Machinery Co., Ltd	河北中新精密機械有限公司
Wuxi Borui Petroleum Engineering Co., Ltd	無錫博瑞石油機械有限公司
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd	天津雙海石油鋼管製造有限公司*

* Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. was a subsidiary of the Group before December 2010. In December 2010, the Group disposed of its entire 75% equity interest in it to Huashi Hailong, which is under the common control of the Controlling Shareholder. As a result, Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. was regarded as a related party of the Group since December 2010. Details see Note 35.

(iv) Associates of the Group

	<u>Chinese name</u>
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	山東勝利油田物華圖博可特管道塗層有限公司
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	中海石油圖博可特天津管道有限公司
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	西安長慶圖博可特石油管道塗層有限公司
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd	江蘇圖博可特曙光塗層有限公司*
Nantong Hilong Steel Pipe Co., Ltd	南通海隆鋼管有限公司
Shanghai Boteng Welding Consumable Co., Ltd	上海博騰焊接材料有限公司*

* These companies are the associates of the Group in 2007. In 2008, the Group acquired further interest in these two companies. As a result, these two companies are regarded as subsidiaries of the Group since 2008. Details see Note 34.

(v) Jointly controlled entities of the Group

	<u>Chinese name</u>
Almansoori Hilong Petroleum Pipe Company	n.a.
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	盤錦遼河油田派普圖博可特塗層有限公司

(vi) The subsidiaries' non-controlling interest

	<u>Chinese name</u>
Jiangsu Hilong Shuguang Steel Pipe Co., Ltd	江蘇海隆曙光鋼管有限公司

(vii) Controlled by key management personnel

	<u>Chinese name</u>
Shanghai Yuanzhi Metallurgical Co., Ltd	上海園直冶金技術諮詢服務有限公司
Shanghai Xinhao Technology Development Co., Ltd	上海信豪科技發展有限公司
Shanxi Ante Petroleum Engineering Technology Co., Ltd	陝西安特石油工程技術有限公司

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the years ended December 31, 2008, 2009 and 2010, the Group had the following significant transactions with related parties:

	The Group		
	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Sales of goods:			
Hilong USA LLC	44,878	—	—
Almansoori Hilong Petroleum Pipe Company	15,786	10,052	29,626
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	8,328	5,364	5,184
Hilong Oil Pipe Co., Ltd	8,069	4,607	4,608
Hailong International	7,487	5,702	—
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	4,411	3,827	2,833
Huashi Hailong	1,438	3,473	5,701
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	634	4,480	24,112
Shanxi Ante Petroleum Engineering Technology Co., Ltd	256	—	—
Nantong Hilong Steel Pipe Co., Ltd	—	36,965	3,104
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	—	11,850	10,389
Beijing Huashi Hilong Oil Investment Co., Ltd	—	4,134	5,924
Jiangyan Hilong Wire Welding Co., Ltd	—	103	2,863
	<u>91,287</u>	<u>90,557</u>	<u>94,344</u>
Purchase of materials:			
Huashi Hailong	37,396	8,581	—
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	11,798	705	4,889
Wuxi Borui Petroleum Engineering Co., Ltd	4,900	4,648	—
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	3,337	—	—
Nantong Hilong Steel Pipe Co., Ltd	2,468	46,246	37,875
Hebei Zhongxin Precision Machinery Co., Ltd	474	19	756
Beijing Huashi Hilong Oil Investment Co., Ltd	—	3,476	8,671
Jiangyan Hilong Wire Welding Co., Ltd	—	1,411	1,417
	<u>60,373</u>	<u>65,086</u>	<u>53,608</u>
Consulting fee:			
Shanghai Xinhao Technology Development Co., Ltd	6,000	6,000	937
Shanghai Yuanzhi Metallurgical Co., Ltd	—	2,083	6,417
	<u>6,000</u>	<u>8,083</u>	<u>7,354</u>
Sales Commission:			
Huashi Hailong	<u>5,474</u>	<u>3,090</u>	<u>127</u>

Before the Group became a certified supplier of certain state-owned entities, its products were sold to these state-owned entities through Huashi Hailong, which was a certified supplier of these state-owned entities since 2005. Huashi Hailong charged sales commission to the Group, which usually ranged from 2% to 3% of total sales through Huashi Hailong.

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of the business and in accordance with the term of the underlying agreements.

(c) Balances with related parties

	The Group		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables due from:			
Hilong USA LLC	44,878	27,766	2,091
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	9,544	11,984	1,544
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	3,651	3,277	2,640
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	329	1,523	3,383
Shanxi Ante Petroleum Engineering Technology Co., Ltd	199	184	184
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	—	19,885	2,756
Nantong Hilong Steel Pipe Co., Ltd	—	11,016	11,000
Beijing Huashi Hilong Oil Investment Co., Ltd	—	4,521	—
Jiangyan Hilong Wire Welding Co., Ltd	—	121	3,188
Almansoori Hilong Petroleum Pipe Company	—	—	28,239
	<u>58,601</u>	<u>80,277</u>	<u>55,025</u>
Other receivables due from:			
Huashi Hailong	107,375	175,180	160,075
Shanxi Ante Petroleum Engineering Technology Co., Ltd	10,400	10,400	10,400
Jiangsu Hilong Shuguang Steel Pipe Co., Ltd	7,000	7,000	—
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	2,919	3,843	11,703
Beijing Huashi Hilong Oil Investment Co., Ltd	—	14,700	58,524
Hilong USA LLC	—	190	—
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	—	12	13,230
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	—	—	18,052
Nantong Hilong Steel Pipe Co., Ltd	—	—	12,632
Huashi Audio Visual Investment (Beijing) Co., Ltd	—	—	6,651
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	—	—	2,685
Hilong Oil Pipe Co., Ltd	—	—	2,035
Almansoori Hilong Petroleum Pipe Company	—	—	1,085
	<u>127,694</u>	<u>211,325</u>	<u>297,072</u>
Prepayments to:			
Nantong Hilong Steel Pipe Co., Ltd	3,351	—	—
Huashi Hailong	15	—	—
Beijing Huashi Hilong Oil Investment Co., Ltd	—	29,661	23,350
	<u>3,366</u>	<u>29,661</u>	<u>23,350</u>
The Company			
As at December 31,			
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other receivables due from:			
Hilong Energy Limited	—	—	264,949

Other receivables due from Hilong Energy Limited is non-trade in nature, unsecured, interest-free and have no fixed payment terms.

	The Group		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables due to:			
Huashi Hailong	49,783	58,055	29,648
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	4,911	504	3,382
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	2,836	—	—
Nantong Hilong Steel Pipe Co., Ltd	1,975	—	—
Wuxi Borui Petroleum Engineering Co., Ltd	1,713	—	—
Beijing Huashi Hilong Oil Investment Co., Ltd	234	96	745
Jiangyan Hilong Wire Welding Co., Ltd	—	1,477	2,714
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd	—	—	4,767
	<u>61,452</u>	<u>60,132</u>	<u>41,256</u>
Other payables due to:			
Hailong International	78,496	115,947	317,072
Huashi Hailong	17,916	73,760	2,193
Beijing Huashi Hilong Oil Investment Co., Ltd	—	—	36
	<u>96,412</u>	<u>189,707</u>	<u>319,301</u>
Advance from:			
Huashi Hailong	606	—	—
Almansoori Hilong Petroleum Pipe Company	—	3,823	—
	<u>606</u>	<u>3,823</u>	<u>—</u>
Dividends payable due to:			
Huashi Hailong	32,342	35,148	35,148
Hailong International	58,876	1,300	9,470
	<u>91,218</u>	<u>36,448</u>	<u>44,618</u>
Loan borrowing from:			
Hailong International (Note 19(c))	<u>5,112</u>	<u>11,796</u>	<u>10,565</u>

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand except for the borrowings from related party.

(d) *Key management compensation*

	The Group		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	2,545	2,683	4,221
Discretionary bonuses	1,490	2,102	1,724
Other benefits including pension	193	273	301
	<u>4,228</u>	<u>5,058</u>	<u>6,246</u>

37 Investment in a subsidiary

	The Company		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Unlisted, at cost	=	=	=

Particulars of the subsidiaries of the Group as at the date of this report and during the Relevant Periods are set out below:

Company name	Country/place and date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group %			Direct/Indirect	Principle activities
			December 31,				
			2008	2009	2010		
Hilong Group of Companies Ltd.	PRC, January 14, 2005	USD 1,458,842	100%	100%	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, August 30, 2005	USD 3,600,000	100%	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, December 29, 2005	RMB 3,000,000	54%*	54%	54%	Indirect	Manufacturing and distribution of hardbanding materials
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, November 17, 2006	RMB 50,000,000	100%	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, November 22, 2006	RMB 30,000,000	100%	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, January 1, 2008	RMB 40,000,000	51%	51%	51%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, March 8, 2002	RMB 26,000,000	51%	51%	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, October 22, 2003	USD 4,000,000	38.09%*	38.09%	38.09%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, November 12, 2003	RMB 15,000,000	72%	72%	72%	Indirect	Manufacturing and distribution of coating materials
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, November 9, 2005	RMB 10,000,000	60%	60%	60%	Indirect	Coating service provision
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, January 7, 2008	RMB 20,000,000	45.4%	45.4%	45.4%	Indirect	Coating service provision
Hilong Oil Service and Engineering Co., Ltd.	PRC, July 16, 2008	RMB 80,000,000	95%	95%	95%	Indirect	Oilfield service provision

* These two companies are associated companies of the Group before 2008, details refer to Note 10.

Company name	Country/place and date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group %			Direct/Indirect	Principle activities
			December 31,				
			2008	2009	2010		
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.	PRC, May 27, 2002	USD 2,100,000	75%	75%	—**	Indirect	Manufacturing and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, June 9, 2009	RMB 6,000,000	—	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Tubular Goods Research Institute	PRC, October 27, 2006	RMB 5,000,000	100%	100%	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, January 5, 2009	RMB 24,000,000	—	99%	99%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	RPC, April 16, 2009	RMB 20,000,000	—	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, September 29, 2010	RMB 15,000,000	—	—	55%	Indirect	Coating service provision
Hilong Energy Holding Limited	British Virgin Islands, October 15, 2008	— (1 share was issued with no par value)	100%	100%	100%	Direct	Investment holding
Hilong Energy Limited	Hong Kong, July 8, 2008	HK\$1	100%	100%	100%	Indirect	Investment holding
Hilong Oil Service Ltd.	Malaysia, March 4, 2009	USD 10,000	—	100%	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, March 18, 2009	USD 400	—	100%	100%	Indirect	Oilfield service provision
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, December 28, 2006	KZT110,000	100%	100%	100%	Indirect	Oilfield service provision
PT Hilong Oil Service & Engineering Indonesia	The Republic of Indonesia, May 6, 2010	USD 150,000	—	—	95%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, July 26, 2010	IDR30,000,000	—	—	100%	Indirect	Oilfield service provision
Hilong Investment Ltd.	Malaysia, September 13, 2006	USD 100	100%	100%	100%	Indirect	Investment holding
Hilong Petropipe Co., Ltd.	Canada, April 17, 2007	CAD 100	100%	100%	100%	Indirect	Oil and gas equipment trading
Hilong Drilling & Supply FZE	Dubai, December 15, 2009	AED 1,000,000	—	100%	100%	Indirect	Oilfield service provision

** Equity interest in this company has been disposed by the Group in 2010, details refer to Note 35.

The companies that have audited statutory financial statements during the Relevant Periods and the name of the auditors are as follows:

Company name	Name of statutory auditors		
	2008	2009	2010
Incorporated in the PRC:			
Hilong Group of Companies Ltd.	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Hilong Drill Pipe (Wuxi) Co., Ltd.	Wuxi Gongqin CPA Co., Ltd. (無錫公勤會計師事務所)	Wuxi Gongqin CPA Co., Ltd. (無錫公勤會計師事務所)	Wuxi Gongqin CPA Co., Ltd. (無錫公勤會計師事務所)
Shanghai Boteng Welding Consumable Co., Ltd.	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Shanghai Hilong Drill Pipe Co., Ltd.	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Jiangsu Hilong Drill Pipe Co., Ltd.	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)	Houma Zhongcheng CPA Co., Ltd. (侯馬中誠聯合會計師事務所)	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	Huaxia CPA Co., Ltd. (華夏會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)
Shanghai Hilong Shine New Material Co., Ltd.	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)
Hilong Oil Service and Engineering Co., Ltd.	Zhongyin CPA Co., Ltd. (中逸會計師事務所)	Zhongyin CPA Co., Ltd. (中逸會計師事務所)	Zhongyin CPA Co., Ltd. (中逸會計師事務所)

Company name	Name of statutory auditors		
	2008	2009	2010
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.	Tianjin Beiyang Jincakuai CPA Co., Ltd. (天津北洋金財會計師事務所)	Tianjin Beiyang Jincakuai CPA Co., Ltd. (天津北洋金財會計師事務所)	Not applicable as the equity interest in this company has been disposed by the Group in 2010, details refer to Note 35.
Shanghai Hilong Special Steel Pipe Co., Ltd.	Not applicable	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	Not applicable	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Incorporated in Hong Kong: Hilong Energy Limited	RSM China CPA Co., Ltd. (中瑞岳華(香港)會計師事務所)	RSM China CPA Co., Ltd. (中瑞岳華(香港)會計師事務所)	RSM China CPA Co., Ltd. (中瑞岳華(香港)會計師事務所)

Except for the above companies, no audited statutory financial statements were prepared for other subsidiaries as they such are either not required to issue audited financial statements under the local statutory requirements or newly established that their first statutory audits have yet to be completed.

The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

38 Subsequent events

- (a) On January 1, 2011, approximate 46,322,000 share options were granted to directors and employees with an exercise price set at the price of RMB 2.59 (expiry date: December 31, 2020).
- (b) On February 28, 2011, pursuant to the written resolutions of all the shareholders of the Company, the authorized share capital of the Company was diminished by the cancellation of all authorized but unissued Series A convertible preferred shares of HK\$0.1 each of the Company and following such diminution, the authorized share capital of the Company was increased by creation such number of ordinary shares of HK\$0.1 each of the Company necessary to increase the authorized share capital to HK\$3,000,000,000 divided into 30,000,000,000 shares of HK\$0.1 each.
- (c) On February 28, 2011, pursuant to the written resolutions of all the shareholders the Company, the issue of 1,199,000,000 shares will be made upon capitalization of an amount of HK\$119,900,000 standing to the credit of the share premium account of the Company.
- (d) On March 2, 2011, the Group completed the Reorganization in preparation of the Listing.
- (e) In March 2011, three family trusts (the "Mr. Zhang's Family Trusts") were established by Mr. Zhang (as settlor) to hold indirect interests in the shares for the benefit of his family members, with Standard Chartered Trust (Cayman) Limited acting as the trustee. Each of Mr. Zhang's Family Trusts holds 100% of the equity interest in the respective BVI entities, which in turn holds equity interest in the Company of 2%, 2% and 5.33%, respectively.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to December 31, 2010 and up to the date of this report. Except as disclosed in this report, no dividend or distribution have been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to December 31, 2010.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information sets out in this Appendix does not form part of the Accountant's Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of our Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountant's Report" set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had been taken place on December 31, 2010 and based on the audited combined net tangible assets attributable to equity holders of our Company as of December 31, 2010 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group after the completion of the Global Offering.

	Audited combined net tangible assets attributable to equity holders of our Company as of December 31, 2010 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$ ⁽⁵⁾
Based on an Offer Price of HK\$2.50 per share	671,016	787,155	1,458,171	0.91	1.07
Based on an Offer Price of HK\$3.27 per share	671,016	1,041,370	1,712,386	1.07	1.26

Notes:

- (1) The audited combined net tangible assets attributable to equity holders of our Company as of December 31, 2010 is based on the audited combined net assets of the Group attributable to the equity holders of our Company as of December 31, 2010, as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus with an adjustment for intangible assets of RMB11.8 million.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$2.50 to HK\$3.27 per Share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or any shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 1,600,000,000 Shares are in issue assuming that the Global Offering and the Capitalization Issue have been completed on December 31, 2010, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or any shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (4) By comparing the valuation of our Group's property interests of RMB300.5 million as set out in Appendix III to this Prospectus and the unaudited net book value of these properties as at February 28, 2011, the net revaluation surplus is approximately RMB54.4 million, which has not been included in the above net tangible assets attributable to equity holders of our Company as at December 31, 2010. The revaluation of the Group's property interests will not be incorporated in the Group's financial information. If the revaluation surplus is to be included in the Group's financial information, an additional depreciation charge of approximately RMB3.2 million per annum related to buildings and land use rights would be recorded.
- (5) The unaudited pro forma adjusted net tangible assets per Share amount in RMB are converted to HK\$ at an exchange rate of RMB0.8509 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (6) No adjustments have been made to the unaudited pro forma adjusted net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2010.

B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF HILONG HOLDING LIMITED

We report on the unaudited pro forma financial information of Hilong Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on page II-1 under the heading of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated April 11, 2011 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page II-1 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountant's Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at December 31, 2010 with the accountant's report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated,

that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the adjusted net tangible assets of the Group as at December 31, 2010 or any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, April 11, 2011

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent property valuer, in connection with its opinion of value of the property interests of our Group as at February 28, 2011.



Jones Lang LaSalle Sallmanns Limited
6/F, Three Pacific Place
1 Queen's Road East Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

April 11, 2011

The Board of Directors
Hilong Holding Limited
No. 1825, Luodong Road
Baoshan Industrial Zone
Shanghai, the PRC

Dear Sirs,

In accordance with your instructions to value the properties in which Hilong Holding Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), Republic of Kazakhstan and Ecuador, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at February 28, 2011 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the typical buildings and structures of the property interests in Group I and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interest in Group III which is currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Groups IV, V and VI, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

We have attributed no commercial value to the property interest in Group II, which has not been assigned to the Group as at the date of valuation, thus the title of the property is not vested in the Group.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers—King & Wood, the Company's Republic of Kazakhstan legal advisers—Salans LLP and the Company's Ecuador legal advisers—Pérez Bustamante & Ponce, concerning the validity of the property interests in the PRC, Kazakhstan and Ecuador.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of

Jones Lang LaSalle Sallmanns Limited

Paul L. Brown
B.Sc. FRICS FHKIS
Chief Valuation Adviser

Sam B. Q. Zhu
MRICS
Director

Notes:

- 1. Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region, and relevant valuation experience in certain South American and Central Asian countries.*
- 2. Sam B. Q. Zhu is a Chartered Surveyor who has 13 years' experience in the valuation of properties in the PRC.*

SUMMARY OF VALUES

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at February 28, 2011</u>	<u>Interest attributable to the Group</u>	<u>Capital value attributable to the Group as at February 28, 2011</u>
		RMB		RMB
Group I—Property interests held and occupied by the Group in the PRC				
1.	A parcel of land, 16 buildings and various structures No. 1825 Luodong Road Baoshan District Shanghai The PRC	173,824,000	100%	173,824,000
2.	A parcel of land, 8 buildings and various structures No. 669 Jinle Road Yuepu Industry Park Baoshan District Shanghai The PRC	No commercial value	51%	No commercial value
3.	A parcel of land, 6 buildings and various structures located at Group 3 Xinhua Village Baimi Town Jiangyan City Jiangsu Province The PRC	13,223,000	100%	13,223,000
	Sub-total:	<u><u>187,047,000</u></u>		<u><u>187,047,000</u></u>
Group II—Property interest contracted to be acquired by the Group in the PRC				
4.	A parcel of land located at No. 1825 Luodong Road Baoshan District Shanghai The PRC	No commercial value	99%	No commercial value
	Sub-total:	<u><u>Nil</u></u>		<u><u>Nil</u></u>
Group III—Property interest held under development by the Group in the PRC				
5.	A parcel of land and 7 buildings under construction located at North aviation airports industrial Gaoping District Nanchang City Sichuan Province The PRC	No commercial value	100%	No commercial value
	Sub-total:	<u><u>Nil</u></u>		<u><u>Nil</u></u>

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB	<u>Capital value attributable to the Group as at February 28, 2011</u> RMB
Group IV—Property interests rented and occupied by the Group in the PRC			
6.	Units 02 and 03 on the 26th Floor Shanghai Tian An Centre No. 338 West Nanjing Road Shanghai The PRC	No commercial value	No commercial value
7.	No. 13 Dong Qian Zhai Shen Xiang Village Baoshan District Shanghai The PRC	No commercial value	No commercial value
8.	Unit 204 on the 2nd Floor Block 4 Ma Jing Qiao Er Village Baoshan District Shanghai The PRC	No commercial value	No commercial value
9.	Unit 602 on the 6th Floor Block 46 Lane 58 Tayuan Road Baoshan District Shanghai The PRC	No commercial value	No commercial value
10.	A parcel of land and 2 buildings located at Shuguang Industry Park Baimi Town Jiangyan City Jiangsu Province The PRC	No commercial value	No commercial value
11.	A parcel of land and 2 buildings No. 217 Xitai Road Wuxi City Jiangsu Province The PRC	No commercial value	No commercial value
12.	Unit 601 on the 6th floor Beijing Fortune Plaza No. 7 Dong San Huan Road Beijing The PRC	No commercial value	No commercial value

APPENDIX III

PROPERTY VALUATION

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB	<u>Capital value attributable to the Group as at February 28, 2011</u> RMB
13.	A parcel of land and 2 building No. 168 Fenglei Street Southern of Houma City Shanxi Province The PRC	No commercial value	No commercial value
14.	A parcel of land and 3 building No. 168 Fenglei Street South of Houma City Shanxi Province The PRC	No commercial value	No commercial value
15.	3 buildings located at Binjiang Avenue Taicang Port Development Zone Taicang City Jiangsu Province The PRC	No commercial value	No commercial value
Sub-total:		<u><u>Nil</u></u>	<u><u>Nil</u></u>

Group V—Property interests rented and occupied by the Group in Ecuador

16.	Office No. 402 on the 4th floor and parking plot No. 30 Edificio Parque Central Quito Ecuador	No commercial value	No commercial value
17.	Office No. 403 on the 4th floor, parking plots Nos.16, 25 and 26, and Storage room No. 4 Edificio Parque Central Quito Ecuador	No commercial value	No commercial value
18.	A parcel of land located at Matriz Parish CoCa Lote 7-B1 Orellana Province Ecuador	No commercial value	No commercial value
Sub-total:		Nil	Nil

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB	<u>Capital value attributable to the Group as at February 28, 2011</u> RMB
Group VI—Property interests rented and occupied by the Group in Kazakhstan			
19.	An office unit on the 2nd floor No. 110 Jubanova Street Aktobe Republic of Kazakhstan	No commercial value	No commercial value
20.	An office building located at the quarter of the Isolation Hospital Kyzylorda City Republic of Kazakhstan	No commercial value	No commercial value
	Sub-total:	<u>Nil</u>	<u>Nil</u>
	Grand total:	<u><u>187,047,000</u></u>	<u><u>187,047,000</u></u>

VALUATION CERTIFICATE

Group I—Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at February 28, 2011 RMB
1.	A parcel of land, 16 buildings and various structures No. 1825 Luodong Road Baoshan District Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 194,751.1 sq.m., 16 buildings and various structures erected thereon which were completed in 2007 and 2010. The buildings have a total gross floor area of approximately 84,391.55 sq.m. The buildings mainly include industrial buildings, office buildings and guard houses, etc. The structures mainly include boundary fences and roads. The land use rights of the property have been granted for a term of 50 years expiring on October 31, 2055 for industrial use.	The property is currently occupied by the Group for production, office and ancillary purposes.	173,824,000 100% interest attributable to the Group: RMB173,824,000

Notes:

- Pursuant to a Real Estate Title Certificate—Hu Fang Di Bao Zi (2009) Di No. 046821 dated September 14, 2009, the land use rights of a parcel of land with a site area of approximately 194,751.1 sq.m. have been granted to Hilong Group of Companies Ltd. (“Hilong Group”, 海隆石油工業集團有限公司), a wholly-owned subsidiary of the Company, for a term of 50 years expiring on October 31, 2055 for industrial use and 10 buildings with a total gross floor area of approximately 45,529.21 sq.m. are owned by Hilong Group.
- Pursuant to a Construction Work Planning Permit—Jian Zi Di Hu Bao Jian (2008) No. 13081224P03270 in favor of Hilong Group, 8 buildings with a total gross floor area of approximately 40,375 sq.m. have been approved for construction.
- Pursuant to a Construction Work Commencement Permit—0802BS0086D01 310113200806031001 in favor of Hilong Group, permission by the relevant local authority was given to commence the construction work.
- We have attributed no commercial value to the 6 buildings with a total gross floor area of approximately 38,862.34 sq.m. which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB57,970,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.
- Pursuant to a Maximum Amount Mortgage Contract dated June 23, 2010, the property is subject to a mortgage in favor of China Merchants Bank Shanghai Branch Baoshan Sub-branch (the “Mortgagee”) as security for a loan with maximum amount of RMB156,000,000 for a term of a year commencing from July 2, 2010 and expiring on July 1, 2011.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Hilong Group has legally obtained the land use rights and the building ownership rights of the property and is entitled to occupy, use, transfer, lease, mortgage or otherwise dispose of the property;
 - b. The buildings and land use rights of the property are subject to mortgage in favor of the Mortgagee; and
 - c. There is no material impediment in obtaining the Building Ownership Certificate once the buildings stated in note 4 passed the completion acceptance check.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
2.	A parcel of land, 8 buildings and various structures No. 669 Jinle Road Yuepu Industry Park Baoshan District Shanghai The PRC	<p>The property comprises a parcel of land with a site area of approximately 31,415 sq.m., 8 buildings and various structures erected thereon which were completed in 2004.</p> <p>The buildings have a total gross floor area of approximately 8,284.07 sq.m.</p> <p>The buildings mainly include an industrial building, warehouses and an office building, etc.</p> <p>The structures mainly include boundary fences and roads.</p> <p>The collectively-owned land use rights of the property were held by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. for a term expiring on March 7, 2052 for industrial use (Please refer to note 1).</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	No commercial value

Notes:

- Pursuant to a Real Estate Title Certificate—Hu Fang Di Bao Zi (2006) Di No. 000838 dated December 26, 2005, the collectively-owned land use rights of the property with a site area of approximately 31,415 sq.m. are held by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (“Shanghai Tube”), a 51% interest owned subsidiary of the Company, for a term expiring on March 7, 2052 for industrial use and 8 buildings with a total gross floor area of approximately 8,284.07 sq.m. are owned by Shanghai Tube.
- In the valuation of this property, we have attributed no commercial value to the property as the land is collectively-owned land. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the date of valuation would be RMB13,704,000 assuming all relevant title certificates have been obtained and the building could be freely transferred.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:

Shanghai Tube has legally obtained the land use rights and the building ownership rights of the property, and is entitled to occupy and use the property.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at February 28, 2011 RMB
3.	A parcel of land, 6 buildings and various structures located at Group 3 Xinhua Village Baimi Town Jiangyan City Jiangsu Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 29,920 sq.m., 6 buildings and various structures erected thereon which were completed in various stages between 2006 and 2007.</p> <p>The buildings have a total gross floor area of approximately 5,222.47 sq.m.</p> <p>The buildings mainly include an industrial building, an office building and a guard house, etc.</p> <p>The structures mainly include boundary fences and roads.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on December 25, 2056 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	13,223,000 100% interest attributable to the Group: RMB13,223,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate—Jiang Tu Guo Yong (Ji 03) Di No. 2007013 dated February 12, 2007, the land use rights of the property with a site area of approximately 29,920 sq.m. have been granted to Jiangsu Hilong Drill Pipe Co., Ltd. (“Jiangsu Hilong Drill”), a wholly-owned subsidiary of the Company, for a term of 50 years expiring on December 25, 2056 for industrial use.
2. Pursuant to 2 Building Ownership Certificates—Jiang Fang Quan Zheng Jiang Yan Zi Di Nos. 50000690 and 80023691 dated August 31, 2007 and March 3, 2011, 3 buildings with a total gross floor area of approximately 4,992.47 sq.m. are owned by Jiangsu Hilong Drill.
3. We have attributed no commercial value to the 3 buildings with a total gross floor area of approximately 230 sq.m. which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB254,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.
4. Pursuant to a Maximum Amount Mortgage Contract dated September 12, 2007, the land use rights of the property as described in note 1 and the building ownership rights of the 2 buildings erected thereon as described in note 2 are subject to a mortgage in favor of China Agricultural Bank Co., Ltd. Jiangyan Sub-branch (the “Mortgagee”) as security for a loan with maximum amount of RMB7,000,000 for a term commencing from September 12, 2007 and expiring on September 11, 2012.
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Jiangsu Hilong Drill has legally obtained the land use rights and the building ownership rights of the property except for the buildings state in note 3 and is entitled to occupy, use, transfer, lease, mortgage or otherwise dispose of the property except for the buildings state in note 3;
 - b. The buildings and land use rights of the property are subject to mortgage in favor of the Mortgagee; and
 - c. Jiangsu Hilong Drill has not obtained any construction permits for the buildings stated in note 3 and may be asked to demolish these buildings by the local authorities. Since these buildings are used for staff canteen, it will not cause adverse effects on Jiangsu Hilong Drill’s business.

Group II—Property interest contracted to be acquired by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
4.	A parcel of land located at No. 1825 Luodong Road Baoshan District Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 80,524.9 sq.m.	The property is currently vacant.	No commercial value

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 6 December 2010 entered into between Shanghai Hilong Special Oil Pipe Co., Ltd. (“Hilong Special Pipe”, 上海海隆特種鋼管有限公司) and Shanghai Baishan District Planning and State-owned Land Resources Administrative Bureau (上海市寶山區規劃和土地管理局), the land use rights of the property were contracted to be granted to Hilong Special Pipe for a term of 50 years for industrial use. The land premium was RMB 39,240,000.
- As at the date of valuation, the property has not been assigned to the Group and thus the title of the property is not vested in the Group. Therefore we have attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as at the date of valuation would be RMB41,551,000, on condition that the relevant title certificates have been obtained by the Group and the Group is entitled to freely transfer, lease, mortgage or otherwise dispose of the property.
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
There is no material legal impediment in obtaining the Land Use Rights Certificate.

Group III—Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at February 28, 2011 RMB
5.	A parcel of land and 7 buildings under construction located at North aviation airports industrial GaoPing District Nanchong City Sichuan Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 29,752 sq.m. and 7 buildings (the “CIPs”) which are being constructed thereon.</p> <p>The property is scheduled to be completed in 2011. Upon completion, the buildings of the property will have a total gross floor area of approximately 15,075 sq.m.</p>	The property is currently under construction.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Purchase Confirmation Letter (國有土地使用權成交確認書) dated February 11, 2011 entered into between Sichuan Hilong Petroleum Technology Co., Ltd. (“Sichuan Hilong”, 四川海隆石油技術有限公司), a wholly-owned subsidiary of the Company, and Nanchong State-owned Land Resources Administrative Bureau, Gaoping Sub Bureau (南充市國土資源局高坪分局), the land use rights of the property with a site area of 44.628 Mu (equal to approximately 29,752 sq.m.) was confirmed to be granted to Hilong Group.
2. As advised by the Group, the total construction cost of the CIPs is estimated to be approximately RMB14,894,502, of which RMB12,602,993.72 had been paid up to the date of valuation.
3. As at the date of valuation, the property has not been assigned to the Group and thus the title of the property is not vested in the Group. Therefore we have attributed no commercial value to the property.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. There is no material legal impediment for the Group to obtain the land use right certificate with respect to such land in Sichuan Province; and
 - b. The likelihood for the local authority to impose any fine or penalty as a result of such lack of land use right certificate or commencement of construction on such land in Sichuan Province is remote.

Group IV—Property interests rented and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
6.	Units 02 and 03 on the 26th Floor Shanghai Tian An Centre No. 338 West Nanjing Road Shanghai The PRC	<p>The property comprises 2 units on the 26th floor of a 30-storey office building completed in about 2004.</p> <p>The property has a gross floor area of approximately 308.85 sq.m.</p> <p>The property is leased to the Group from an independent third party for a term of 3 years commencing from September 25, 2010 and expiring on September 24, 2013, at an annual rent of RMB901,842 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated August 3, 2007 and a Supplemental Agreement entered into between Hilong Group of Companies Ltd. (“Hilong Group”, 海隆石油工業集團有限公司), a wholly-owned subsidiary of the Company, and Shanghai Tian An Centre Ltd. (上海天安中心大廈有限公司), an independent third party, the property with a gross floor area of approximately 308.85 sq.m. is leased to Hilong Group for a term of 3 years commencing from September 25, 2010 and expiring on September 24, 2013, at an annual rent of RMB901,842 exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - a. The Tenancy Agreement is valid, binding and enforceable; and
 - b. Hilong Group has rights to occupy and use the property according to the Tenancy Agreement.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
7.	No. 13 Dong Qian Zhai Shen Xiang Village Baoshan District Shanghai The PRC	<p>The property comprises a 2-storey residential building completed in about 2008.</p> <p>The property has a gross floor area of approximately 142 sq.m.</p> <p>The property is leased to the Group from an independent third party for a term of a year commencing from August 1, 2010 and expiring on July 31, 2011, at a monthly rent of RMB3,300 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement dated August 1, 2010 entered into between Shanghai Hilong Drill Pipe Co., Ltd. ("Shanghai Hilong Drill") (上海海隆石油鑽具有限公司), a wholly-owned subsidiary of the Company, and Qian Jinlong, an independent third party, the property with a gross floor area of approximately 142 sq.m. is leased to Shanghai Hilong Drill for a term of a year commencing from August 1, 2010 and expiring on July 31, 2011, at a monthly rent of RMB3,300 exclusive of management fees, water and electricity charges.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

The Tenancy Agreement may be influenced by a third party due to lack of Building Ownership Certificate.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
8.	Unit 204 on the 2nd Floor Block 4 Ma Jing Qiao Er Village Baoshan District Shanghai The PRC	<p>The property comprises a unit on the 2nd floor of a 6-storey residential building completed in about 1978.</p> <p>The property has a gross floor area of approximately 40 sq.m.</p> <p>The property is leased to the Group from an independent third party for a term of a year commencing from July 1, 2010 and expiring on June 30, 2011, at a monthly rent of RMB800 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated July 1, entered into between Shanghai Hilong Drill Pipe Co., Ltd. ("Shanghai Hilong Drill") (上海海隆石油鑽具有限公司), a wholly-owned subsidiary of the Company, and Xu Gengmin, an independent third party, the property with a gross floor area of approximately 40 sq.m. is leased to Shanghai Hilong Drill for a term of a year commencing from July 1, 2010 and expiring on June 30, 2011, at a monthly rent of RMB800 exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The Tenancy Agreement is valid, binding and enforceable; and
 - b. Hilong Group has rights to occupy and use the property according to the Tenancy Agreement.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
9.	Unit 602 on the 6th Floor Block 46 Lane 58 Tayuan Road Baoshan District Shanghai The PRC	<p>The property comprises a unit on the 6th floor of a 7-storey residential building completed in about 2006.</p> <p>The property has a gross floor area of approximately 136 sq.m.</p> <p>The property is leased to the Group from an independent third party for a term of 2 years commencing from March 16, 2010 expiring on March 15, 2012, at a monthly rent of RMB3,600 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to 2 Tenancy Agreements dated March 10, 2010 and March 15, 2011, entered into between Shanghai Hilong Drill Pipe Co., Ltd. ("Shanghai Hilong Drill") (上海海隆石油鑽具有限公司), a wholly-owned subsidiary of the Company, and Zhang Li Na), an independent third party, the property with a gross floor area of approximately 136 sq.m. is leased to Shanghai Hilong Drill for a term of 2 years commencing from March 16, 2010 and expiring on March 15, 2012, at a monthly rent of RMB3,600 exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The Tenancy Agreement is valid, binding and enforceable; and
 - b. Shanghai Hilong Drill has rights to occupy and use the property according to the Tenancy Agreement.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
10.	A parcel of land and 2 buildings located at Shuguang Industry Park Baimi Town Jiangyan City Jiangsu Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 29,988 sq.m., and 2 industrial buildings erected thereon completed in about 2003.</p> <p>The buildings have a total gross floor area of approximately 29,988 sq.m.</p> <p>The property is leased to the Group for a term of 20 years commencing from October 1, 2003 and expiring on September 30, 2023, at an annual rent of RMB720,000 exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated August 18, 2003 and entered into between Jiangsu Tube-Cote Shuguang Coating Co., Ltd. ("Jiangsu Tube") (江蘇圖博可特曙光塗層有限公司), a 58.18% interest owned subsidiary of the Company, and Jiangsu Shuguang Group Co., Ltd. ("Jiangsu Shuguang", 江蘇曙光集團有限公司), the property with a total gross floor area of approximately 308.85 sq.m. is leased to Jiangsu Tube for a term of 20 years commencing from October 1, 2003 and expiring on September 30, 2023, at an annual rent of RMB720,000 exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. Jiangsu Shuguang has no rights to lease the property unless obtained the building ownership rights of the property; and
 - b. The Tenancy Agreement may be influenced by a third party due to lack of Building Ownership Certificate.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
11.	A parcel of land and 2 buildings No. 217 Xitai Road Wuxi City Jiangsu Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 24,470.7 sq.m. and 2 industrial buildings erected thereon completed in about 2005.</p> <p>The buildings have a total gross floor area of approximately 6,477.75 sq.m.</p> <p>The property is leased to the Group from an independent third party for a term of 9 years commencing from December 1, 2007 and expiring on November 30, 2016, at an annual rent of RMB932,796 exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated November 15, 2007 and entered into between Hilong Drill Pipe (Wuxi) Co., Ltd. ("Hilong Wuxi", 海隆石油鑽具(無錫)有限公司), a wholly-owned subsidiary of the Company, and Wuxi Hong Teng Construction Co., Ltd. (無錫市泓騰建築有限公司), an independent third party, the property with a total gross floor area of approximately 308.85 sq.m. is leased to Hilong Wuxi for a term of 9 years commencing from December 1, 2007 and expiring on November 30, 2016, at an annual rent of RMB932,796 exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The Tenancy Agreement is valid, binding and enforceable;
 - b. The Tenancy Agreement has been registered with the relevant authorities; and
 - c. Hilong Wuxi has rights to occupy and use the property according to the Tenancy Agreement.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
12.	Unit 601 on the 6th floor Beijing Fortune Plaza No. 7 Dong San Huan Road Beijing The PRC	<p>The property comprises a unit on the 6th floor of a 47-storey office building completed in about 2005.</p> <p>The buildings have a total gross floor area of approximately 494.14 sq.m.</p> <p>The property is leased to the Group from an independent party for a term of a year commencing from July 8, 2010 and expiring on July 7, 2011, at a monthly rent of RMB113,181.5 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated July 7, 2010 and entered into between Hilong Oil Service & Engineering Co., Ltd. ("Hilong Oil Service", 海隆石油技術服務有限公司), a wholly-owned subsidiary of the Company, and Wang Hua Ping (王華平), an independent third party, the property with a gross floor area of approximately 494.14 sq.m. is leased to Hilong Wuxi for a term of a year commencing from July 8, 2010 and expiring on July 7, 2011, at a monthly rent of RMB113,181.5 exclusive of management fees, water and electricity charges
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The Tenancy Agreement is valid, binding and enforceable;
 - b. The Tenancy Agreement has been registered with the relevant authorities; and
 - c. Hilong Oil Service has rights to occupy and use the property according to the Tenancy Agreement.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
13.	A parcel of land and 2 building No. 168 Fenglei Street Southern of Houma City Shanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 28,666 sq.m. and 2 industrial buildings erected thereon completed in about 2008. The buildings have a total gross floor area of approximately 13,742 sq.m. As advised by the Group, the land use rights of the property were leased to the Group.	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. As advised by the Group, the 2 buildings were constructed by Shanxi Tangrong Hilong Drill Tools Co., Ltd. ("Shanxi Tangrong", 山西湯榮海隆鑽具有限公司), a 51% interest owned subsidiary of the Company.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. As advised by Shanxi Tangrong, the land of the property is leased from Shanxi Tangrong Automobile Component Manufacturing Group Co., Ltd. (山西湯榮汽車配件製造集團有限公司); and
 - b. Shanxi Tangrong has not obtained any construction permits for the buildings mentioned in note 1. According to the confirmation from the local authorities, the likelihood for relevant authorities to impose any fine or penalty as a result of lack of construction permits of the abovementioned buildings is remote.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
14.	A parcel of land and 3 building No. 168 Fenglei Street South of Houma City Shanxi Province The PRC	The property comprises a parcel of land with a site area of approximately 19,667 sq.m., and 3 industrial buildings erected thereon completed in about 2008. The buildings have a total gross floor area of approximately 5,577 sq.m. As advised by the Group, the land use rights of the property were leased to the Group.	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. As advised by the Group, the 3 buildings were constructed by Tangrong Tube-Cote (Shanxi) Petroleum Pipe Coating Co., Ltd. ("Tangrong Tube", 湯榮圖博可特 (山西) 石油管道塗層有限公司), a 65% interest owned subsidiary of the Company.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. As advised by Shanxi Tangrong, the land of the property is leased from Shanxi Tangrong Automobile Component Manufacturing Group Co., Ltd. (山西湯榮汽車配件製造集團有限公司); and
 - b. Tangrong Tube has not obtained any construction permits for the buildings mentioned in note 1. According to the confirmation from the local authorities, the likelihood for relevant authorities to impose any fine or penalty as a result of lack of construction permits of the abovementioned buildings is remote.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
15.	3 buildings located at Binjiang Avenue Taicang Port Development Zone Taicang City Jiangsu Province The PRC	<p>The property comprises 3 industrial buildings completed in about 2010.</p> <p>The buildings have a total gross floor area of approximately 6,000 sq.m.</p> <p>The property is leased to the Group for a term of 11 years commencing from January 1, 2011 and expiring on December 31, 2021, at an annual rent of RMB1,800,000 exclusive of management fees, water and electricity charges.</p>	The property is currently occupied by the Group for preparing production purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated October 20, 2010 entered into between Hilong Anti-Corrosion Technology Engineering (Taicang) Co., Ltd. (“Hilong Taicang”, 海隆防腐技術工程(太倉)有限公司), a 55% interest owned subsidiary of the Company, and Shanghai Jiafang Steel Pipe (Group) Taicang Co., Ltd. (上海佳方鋼管集團太倉有限公司), the property with a gross floor area of approximately 6,000 sq.m. is leased to Hilong Taicang for a term of 11 years commencing from January 1, 2011 and expiring on December 31, 2021, at an annual rent of RMB1,800,000 exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - a. Shanghai Jiafang Steel Pipe (Group) Taicang Co., Ltd. (the “Lessor”) is in the process of applying for the Building Ownership Certificate of the property; and
 - b. Hilong Taicang will commence the production after the Lessor obtains the Building Ownership Certificate of the property. It will not cause material adverse effects on the Group’s business.

Group V—Property interests rented and occupied by the Group in Ecuador

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
16.	Office No. 402 on the 4th floor and parking plot No. 30 Edificio Parque Central Quito Ecuador	The property comprises an office unit and a parking lot of a 15-storey office building completed in about 2009. The property is leased to the Group from an independent third party for a term expiring on January 1, 2012, at a monthly rent of USD520.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement entered into between Hilong Oil Service & Engineering Ecuador Co., Ltd (“Hilong Ecuador”), a wholly-owned subsidiary of the Company, and ARTURO CADENA, an independent third party, the property with a total gross floor area of approximately 50 sq.m. is leased to Hilong Ecuador for a term expiring on January 1, 2012, at a monthly rent of USD520.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company’s Ecuador legal advisers, which contains, inter alia, the following:

The Tenancy Agreement is in full force and effect, and has been registered or is in the process of registration with the relevant land/building authorities in accordance with the Laws, and there is no legal hindrance to such registration.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
17.	Office No. 403 on the 4th floor, parking plots Nos.16, 25 and 26, and Storage room No. 4 Edificio Parque Central Quito Ecuador	<p>The property comprises an office unit, 3 parking lots and a storage room of a 15-storey office building completed in about 2009.</p> <p>The property is leased to the Group from an independent third party for a term of 2 years expiring on January 1, 2012, at a monthly rent of USD1,340.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement entered into between Hilong Oil Service & Engineering Ecuador Co., Ltd ("Hilong Ecuador"), a wholly-owned subsidiary of the Company, and Maria Clara Recalde, an independent third party, the property with a total gross floor area of approximately 150 sq.m. is leased to Hilong Ecuador for a term of 2 years commencing from January 1, 2010 and expiring on January 1, 2012, at a monthly rent of USD1,340.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's Ecuador legal advisers, which contains, inter alia, the following:

The Tenancy Agreement is in full force and effect, and has been registered or is in the process of registration with the relevant land/building authorities in accordance with the Laws, and there is no legal hindrance to such registration.

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
18.	A parcel of land located at Matriz Parish CoCa Lote 7-B1 Orellana Province Ecuador	<p>The property comprises a parcel of land with a site area of approximately 10,000 sq.m..</p> <p>The property is leased to the Group from an independent third party for a term of 3 years expiring on January 1, 2013, at a monthly rent of USD2,000.</p>	The property is currently occupied by the Group for open storage purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement entered into between Hilong Oil Service & Engineering Ecuador Co., Ltd (“Hilong Ecuador”), a wholly-owned subsidiary of the Company, and JOSE PEPE ORTIZ QUINONEZ, an independent third party, the property with a site area of approximately 10,000 sq.m. is leased to Hilong Ecuador for a term of 3 years commencing from January 1, 2010 and expiring on January 1, 2013, at a monthly rent of USD2,000.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company’s Ecuador legal advisers, which contains, inter alia, the following:

The Tenancy Agreement is in full force and effect, and has been registered or is in the process of registration with the competent land/building authorities in accordance with the Laws, and there is no legal hindrance to such registration.

Group VI—Property interests rented and occupied by the Group in Kazakhstan

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
19.	An office unit on the 2nd floor No. 110 Jubanova Street Aktobe Republic of Kazakhstan	The property comprises a 2-storey office building completed in about 1995. The property has a gross floor area of approximately 150 sq.m. The property is leased to the Group from an independent third party for a term expiring on December 31, 2011, at a monthly rent of approximately KZT350,000.	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

1. Pursuant to a Tenancy Agreement entered into between Hilong Petroleum Technology & Engineering Co., Ltd. (“Hilong Petroleum”), a wholly-owned subsidiary of the Company, and Ms. Ishkeeva S.A., an independent third party, the property with a gross floor area of approximately 150 sq.m. is leased to Hilong Petroleum for a term expiring on December 31, 2011, at a monthly rent of approximately KZT350,000.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company’s Kazakhstan legal advisers, which contains, inter alia, the following:

The Tenancy Agreement is in full force and effect. The Lease has been approved and registered with the relevant authorities in accordance with Kazakhstan Law (whenever required).

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at February 28, 2011</u> RMB
20.	An office building located at the quarter of the Isolation Hospital Kyzylorda City Republic of Kazakhstan	<p>The property comprises a 2-storey office building completed in about 2008.</p> <p>The property has a gross floor of approximately 455.5 sq.m.</p> <p>The property is leased to the Group from an independent party for a term expiring on March 1, 2011, at a monthly rent of KZT240,000.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Note:

- Pursuant to a Tenancy Agreement entered into between Hilong Petroleum Technology & Engineering Co., Ltd. ("Hilong Petroleum"), a wholly-owned subsidiary of the Company, and Ms. Nurjanova R.K. an independent third party, the property with a gross floor area of approximately 455.5 sq.m. is leased to Hilong Petroleum for a term expiring on March 1, 2011, at a monthly rent of KZT240,000.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's Kazakhstan legal advisers, which contains, inter alia, the following:

The Tenancy Agreement, to which Hilong Petroleum is a party is in full force and effect. The Lease has been approved and registered with the relevant authorities in accordance with Kazakhstan Law (whenever required).

INTRODUCTION

Spears and Associates (Spears) was retained to prepare this industry consultant report (ICR) as part of the IPO process for Hilong Holding Limited.

Spears and Associates

Spears and Associates (Spears) has provided market research-based consulting services to the worldwide petroleum industry since 1965, specializing in equipment and services used in exploration, drilling & completion, production, transportation and refining. Current and former clients include petroleum equipment manufacturers, oilfield service firms, oil and gas producers, financial institutions, trade associations, and the US government. Within this market Spears and Associates provides a wide scope of research and consulting services grouped in the following areas:

- Marketing/Sales—evaluation of market size and growth, market share, customer satisfaction, technology trends, selection criteria, purchasing process, and benchmarking.
- Business Development—strategic analysis for mergers and acquisitions, partnering, new technology development and introduction, and competitive analysis
- Finance/Planning—outlook for industry activity and price sensitivity analysis
- Corporate—strategic review, due diligence, and litigation support

In addition to its market research and consulting assignments, Spears and Associates produces three publications covering the upstream petroleum industry: the Drilling and Production Outlook (DPO); the Oilfield Market Report (OMR); and Pipe Logix.

The **DPO** has tracked and forecast worldwide drilling and production activity since 1981. It is a quarterly report that follows upstream activity—active rigs, wells and footage drilled, and spending to drill and complete wells—in over 50 countries. The **DPO** is used by over 100 oilfield equipment manufacturers and service firms and financial institutions to monitor worldwide oilfield activity, making it the most widely followed upstream activity forecast in the petroleum industry.

The **OMR** is an annual report that tracks worldwide upstream spending by producers for over 30 distinct product and service segments. In each segment the **OMR** identifies annual turnover for each of the leading vendors. In all, about 250 oilfield equipment and service firms are included in the report. In addition the **OMR** identifies recent consolidations and technology trends in each segment. The **OMR** is used by financial institutions and oilfield equipment and service firms to identify market growth and relative performance.

Pipe Logix is a suite of reports that analyze the OCTG market. The flagship publication is the *Spot Market Price* report, which provides average monthly prices for over 30 categories of pipe. The report covers the most popular sizes of tubing, production casing and surface casing. The *Key Market Factors* report is a concise presentation of the drivers to the OCTG industry. It is issued monthly and provides a history of OCTG shipments, OCTG imports, active rigs, wells drilled and other critical drivers to OCTG pricing. Every other month the *Market Review and Outlook* details the drivers, prices, imports/exports and provides commentary and other analysis on the business environment of the OCTG industry.

Research Methodology

Over the course of its research, Spears and Associates interviewed approximately 50 people to determine the size of the market, how it is structured, and how it is expected to develop in the future. These interviews were conducted with key industry participants, knowledgeable industry figures such as marketing managers, product managers, and other company executives. Spears and Associates research also relied on its proprietary database of oilfield market segment sales and its internal knowledge of oilfield equipment and service markets developed through working with many of the world's leading oilfield equipment and service companies. The research team also drew on publicly-available information on energy markets and measures of industry activity. The focus of Spears and Associates research and interviews was toward the oilfield drilling services market, the drill pipe market, and the line pipe and OCTG coating materials and services market.

SUMMARY

Oil and gas demand growth has and will continue to steer increasing investment across the global petroleum industry infrastructure, both upstream and downstream. Nowhere is petroleum demand and investment growing faster than in China.

The Hilong Group is well-positioned to take advantage of this trend, with a dominant position in the drill pipe and pipe coating markets that it serves in China providing the basis for a strong global position in these markets. Based on 2009 sales¹, we estimate that Hilong is the #1 supplier in the Chinese drill pipe market (with approximately 30% share), the leading supplier in the Chinese line pipe coating materials market (with approximately 60% of the market), and the leading supplier in the Chinese OCTG coatings materials and services market (with approximately two-thirds of the market). Based on 2009 sales, we estimate that the Hilong Group is the #2 supplier in the global drill pipe market (with 13% share), and the #2 supplier in the global OCTG materials and coating services market (with a 12%% share). We believe that Hilong's position in both China and the global market in both drill pipe and OCTG coating materials and services did not materially change in 2010.

Going forward, Hilong's strategy of moving into the \$25 billion global contract drilling market by vertically integrating drill pipe manufacturing/coating and contract drilling could potentially allow it to have a significant cost advantage over contract drilling competitors which must source their drill pipe from third parties at market prices. In addition, it may be able to leverage proprietary drill pipe R&D information in such as way as to achieve superior drilling performance. In turn, its presence in the contract drilling market is expected to allow Hilong to identify opportunities in related markets, as it has already with mud engineering services (a \$1.3 billion global market) and cementing services (a \$7.7 billion global market).

¹ Throughout this report, sales of associates and jointly controlled entities calculated based on our equity interests in such entities have been included for purposes of calculating Hilong's market share.

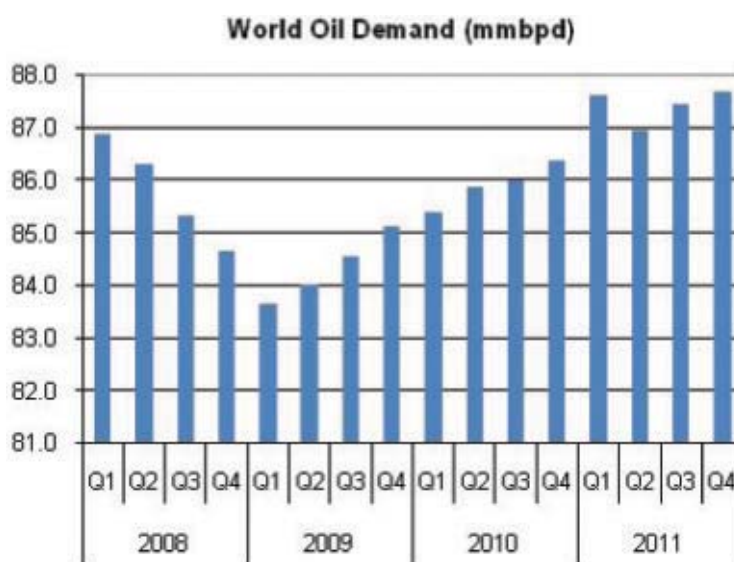
MACRO DEMAND DRIVERS AND INDUSTRY TRENDS

Macro Drivers for Drill Pipes/OCTG Coatings/Drilling Services

Oil Prices

Although many signs point to the fact that the global economic recovery remains disturbingly sluggish and fragile, oil markets appear to be functioning normally, subject to the usual seasonal fluctuations surrounding inventories, supply, and demand. We continue to expect that US spot oil prices will trade in the \$70 to \$80/bbl range for the balance of this year and next, providing an attractive return on their investment for most producers.

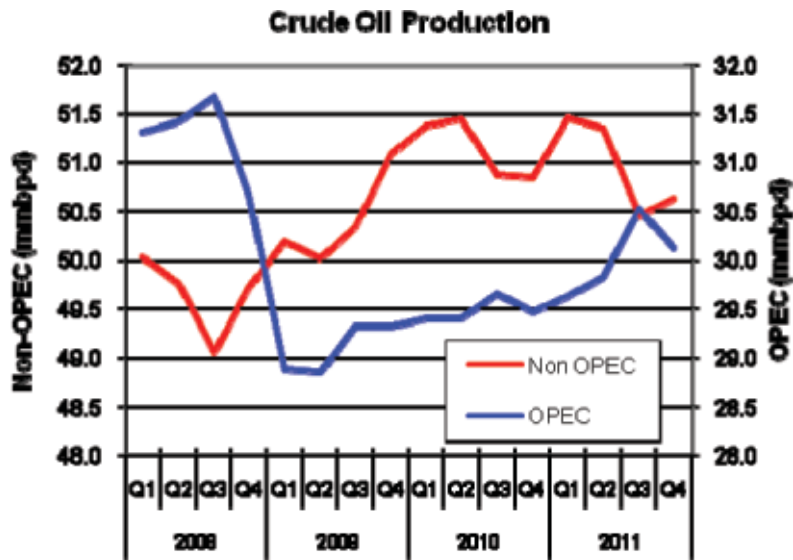
Official sources (EIA, IEA) continue to forecast that global oil demand will continue to grow over the balance of this year and next, despite increasing worries that the economic recovery now underway in the US will slow, though it should be noted that in the most recent round of forecasts the outlook for 2011 growth was trimmed, however slightly. The current projection calls for global oil consumption to increase 1.9% in 2010 to 85.9 mmbpd and grow 1.8% in 2011 (to 87.4 mmbpd).



Source: EIA

As has been the case in prior forecasts, most of the expected growth in world oil demand is expected to come from “emerging markets”, primarily China, Saudi Arabia, and Brazil. Among “industrialized” countries, only the US is expected to show significant increases in oil consumption of about 150,000 bpd in both 2010 and 2011.

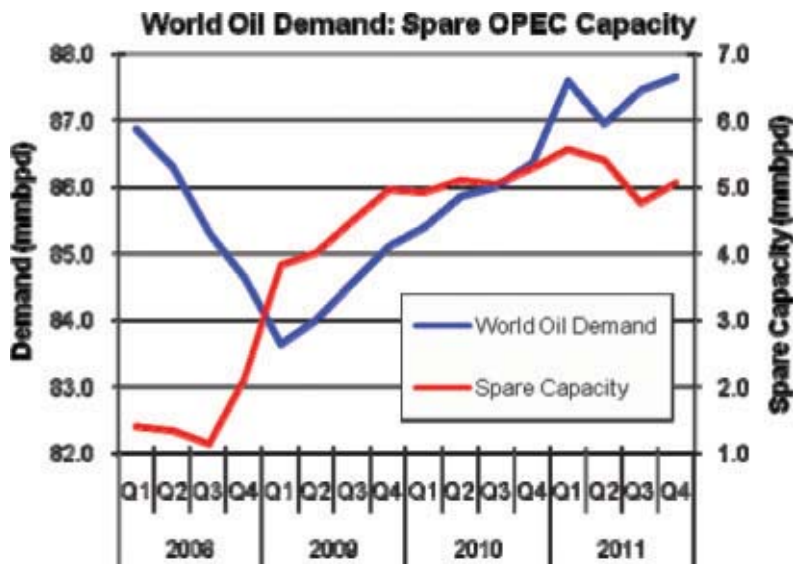
The EIA now projects that non-OPEC supply will increase by 720,000 bpd in 2010, led by gains in the US (largely from the Williston basin), Brazil, and Azerbaijan. Looking ahead to 2011, non-OPEC supply is expected to fall slightly (160,000 bpd) as declining production in mature areas such as the North Sea and Mexico offsets production growth in other areas; this represents only the third time since 1995 that non-OPEC production will decline. However, the 2011 estimates of non-OPEC supply do not appear to take into account a prolonged moratorium on issuing deepwater drilling permits in the Gulf of Mexico as a result of BP’s oil spill. As a result, 2011 non-OPEC supplies may be overstated.



Source: EIA, Spears

It should be noted that at current drilling levels, crude production from the Williston basin is projected to increase approximately 400,000 bpd by 2015. Such an increase may be sufficient to maintain overall US oil production even in the face of a slowdown in deepwater GOM development activity following the Macondo oil spill.

As shown on the following chart, spare oil production capacity in the hands of OPEC member nations remains around 5.0 mmbpd (~15% of OPEC’s production capacity) as it has since late last year. It is expected to remain at or above this level over the balance of this year and through 2011. With world oil demand currently growing at an annual rate of about 1.5 million bpd, OPEC’s spare capacity equates to 3+ years of demand growth.

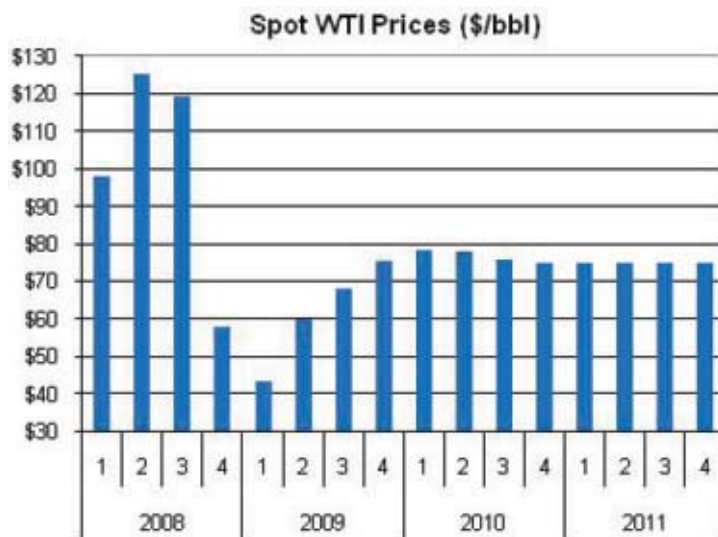


Source: EIA

We estimate that US spot oil prices will average about \$76.75/barrel in 2010, up 24% for the year.

Given aggressive field development plans in Canada (oilsands), Brazil, and Kazakhstan, combined with sluggish oil demand growth in “industrialized” countries, it seems likely that spare OPEC capacity will remain around 5 million bpd, leaving the oil market well supplied over the short-to-mid term.

As a result, we continue to expect that US spot oil prices will trade in the \$70-\$80/bbl range over the 2011 to 2012 timeframe and in the \$75-\$85/bbl range after 2012.



Drilling Activity Outlook

North America

Although US gas drilling has plateaued in recent months, we continue to forecast that overall US gas production capacity will climb throughout the balance of 2010 because the increase in gas rig activity has been concentrated in the highly-productive shale plays. We now estimate that excess US gas production capacity will increase from about 1.4 bcfd in Q4 2009 to about 2.5 bcfd in Q4 2010, a gain of about 75% over this timespan. As a result of this continuing surplus, we project that spot US gas prices will continue to come under severe pressure, struggling to remain near \$4/mmbtu until the return of colder weather in the November-December timeframe. Looking ahead, we project that spot gas prices will average \$4.30/mmbtu in 2011, little changed from this year’s level. However, our gas deliverability model suggests that if gas drilling does slowdown in 2011 and gas demand continues to grow at least slowly that the gas market will tighten appreciably in 2012.

In all, we now project that US rig count will average 1,535 active units for the year, up 41% for the year; activity is projected to grow 13% in 2011. We project that US oil drilling activity will continue to grow over the balance of this year and next in line with its rate of growth over the past five quarters. In recent months the growth in gas drilling activity has come to a halt in the face of sub-\$5 gas prices. Based on our expectation that low gas prices will persist for the rest of 2010 and much of 2011, we expect gas drilling activity to slow over the balance of this year and next.

How quickly gas drilling activity will slow and how far it will fall is influenced by the fact that operators are under pressure in many locations to drill or lose the lease. In addition, the increased financing by majors in gas shale plays will also help sustain activity. However, we estimate that gas drilling activity will have to decline about 20% from now to the end of 2011 in order to keep US gas production capacity from growing and putting further pressure on gas prices to move lower.

Taken in combination—rising oil drilling activity and falling gas drilling activity—we project that overall rig count will continue to rise but at a slower pace than in recent quarters.

Our 2010 Canadian rig forecast now calls for an average of 358 active units in 2010, up 60% for the year; activity is projected to grow another 14% in 2011. In addition to conventional oil and gas production, oil sands activity has recovered smartly in 2010, and all signs point toward increased activity in 2011. Oilsands spending is projected to reach C\$13 billion in 2010, up from C\$2 billion in 2009, in part due to funding from Chinese firms that have recently taken an ownership position in several oilsands ventures.

	NORTH AMERICA											
	RIGS			WELLS			FOOTAGE (MIL)			SPENDING (MIL)		
	Land	Off	Total	Land	Off	Total	Land	Off	Total	Land	Off	Total
2000	1,118	144	1,263	47,509	1,434	48,944	200.7	14.2	214.9	\$ 19,320	\$ 9,106	\$ 28,426
2001	1,339	158	1,497	53,303	1,534	54,837	237.2	15.8	253.0	\$ 28,413	\$14,082	\$ 42,495
2002	975	118	1,094	43,113	874	43,987	199.1	9.3	208.4	\$ 24,755	\$10,354	\$ 35,109
2003	1,291	112	1,403	53,724	922	54,647	249.5	9.7	259.3	\$ 34,645	\$13,282	\$ 47,928
2004	1,455	101	1,556	61,336	878	62,214	286.4	9.5	295.9	\$ 61,605	\$13,139	\$ 74,745
2005	1,741	97	1,838	70,907	802	71,709	343.3	8.9	352.3	\$ 76,439	\$16,297	\$ 92,735
2006	2,026	94	2,120	75,070	777	75,847	379.4	8.3	387.7	\$110,590	\$27,525	\$138,115
2007	2,035	75	2,110	70,025	650	70,675	374.4	7.2	381.6	\$121,704	\$23,574	\$145,278
2008	2,194	66	2,261	73,367	579	73,946	409.5	6.4	415.9	\$148,266	\$22,606	\$170,872
2009	1,265	45	1,310	42,938	397	43,334	258.8	4.4	263.3	\$ 79,308	\$12,604	\$ 91,911
2010 Q1	1,734	48	1,782	15,361	103	15,464	87.8	1.2	89.0	\$ 26,818	\$ 3,375	\$ 30,193
Q2	1,625	43	1,669	14,106	94	14,200	82.6	1.1	83.7	\$ 27,091	\$ 3,110	\$ 30,200
Q3	1,977	21	1,998	17,363	45	17,408	99.6	0.5	100.1	\$ 32,104	\$ 1,587	\$ 33,691
Q4	2,095	25	2,120	19,132	54	19,186	106.3	0.6	106.9	\$ 34,229	\$ 1,901	\$ 36,129
Total	1,858	34	1,892	65,962	296	66,258	376.3	3.4	379.7	\$120,241	\$ 9,971	\$130,212
2011 Q1	2,185	28	2,213	20,152	60	20,212	110.8	0.7	111.5	\$ 36,346	\$ 2,250	\$ 38,596
Q2	1,914	33	1,947	17,333	71	17,404	97.7	0.8	98.5	\$ 33,362	\$ 2,615	\$ 35,977
Q3	2,137	28	2,165	19,575	60	19,635	108.5	0.7	109.2	\$ 36,092	\$ 2,250	\$ 38,343
Q4	2,192	33	2,225	20,146	71	20,217	111.4	0.8	112.2	\$ 36,899	\$ 2,615	\$ 39,514
Total	2,107	31	2,138	77,206	262	77,468	428.5	3.0	431.5	\$142,700	\$ 9,730	\$152,430
2012	2,153	31	2,184	78,920	267	79,187	437.9	3.0	440.9	\$148,852	\$10,106	\$158,957
2013	2,213	32	2,245	80,959	277	81,237	449.9	3.2	453.1	\$156,303	\$10,685	\$166,988
2014	2,272	33	2,306	83,002	288	83,290	461.9	3.3	465.2	\$163,991	\$11,276	\$175,268
2015	2,322	34	2,356	84,784	294	85,079	472.0	3.4	475.4	\$171,183	\$11,765	\$182,948
2016	2,371	35	2,406	86,560	301	86,861	482.1	3.5	485.5	\$178,562	\$12,256	\$190,818

Sources: Baker Hughes, Spears and Associates

Rest of World

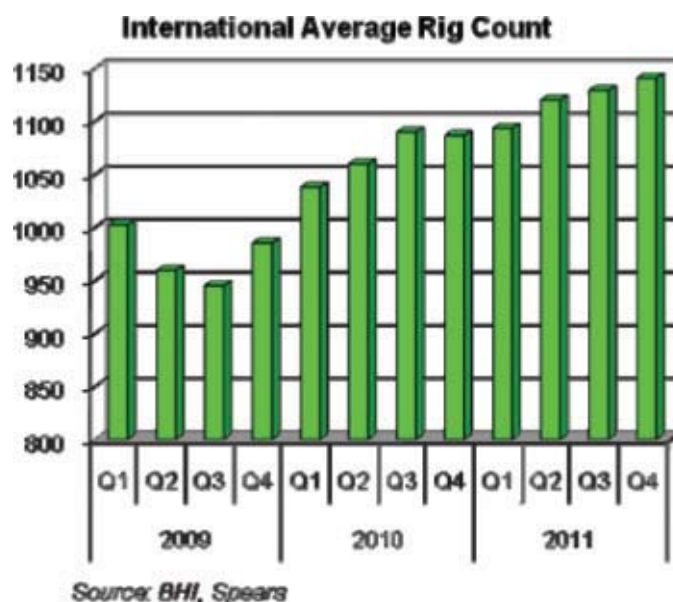
Overall International rig activity² has risen sharply after touching bottom in Q3 2009 and now stands back at the level of the most recent cyclical peak (reached in September 2008). In an environment in which oil and gas prices are significantly lower than what they were in Q3 2008 and the outlook is for little or no growth in commodity prices over the short-to-mid term, we think that most of the bounce in drilling activity off the bottom has already taken place. As a result, we expect further gains in overall International rig count over the balance of this year and next to be limited. Overall International rig activity is expected to rise 10% in 2010 and 5% in 2011. On a regional basis the outlook for activity remains quite varied: Africa (up 27% in 2010 and up 6% in 2011), Europe (up 9% in 2010 and up 5% next year), the Far East (up 8% this year and up 5% in 2011), Central and South America (up 8% in 2010 and up 6% next year), and the Mid East (up 5% in 2010 and up 3% in 2011).

As Europe follows North America into a market where oil and gas prices are decoupled (and gas prices have fallen), gas export projects in Europe, Russia, North Africa, and elsewhere seeking to serve Europe will have to review their economics in light of the new lower-priced environment. As a result, some new projects may be thrown into doubt.

² "International rig activity" includes rigs working in South America, Europe, Africa, the Mid East and the Far East, but excludes rigs working in North America, Russia, China, and Central Asia.

Our updated outlook for 2010 is that overall international drilling activity will rise 10% to an average of 1,068 active rigs (as measured by Baker Hughes), accounting for a total of 14,053 wells and 97.5 million feet of hole drilled. In 2010 onshore activity is projected to rise 9% to an average of 790 active rigs accounting for 11,197 new wells drilled and 69.5 million feet of hole. Offshore rig count is projected to rise 11% in 2010 and average 278 active units accounting for 2,856 new wells and 28.0 million feet of hole drilled. While overall International rig activity is expected to rise 10% in 2010, regional trends are projected to diverge, as follows: Africa (+27%), Europe (+9%), the Far East (+8%), Central and South America (+8%), and the Mid East (+5%).

Our 2011 outlook calls for overall international drilling activity to rise 5% to an average of 1,120 active rigs (as measured by Baker Hughes), accounting for a total of 14,705 wells and 102.0 million feet of hole drilled. In 2011 onshore activity is projected to rise 4% to an average of 824 active rigs accounting for 11,636 new wells drilled and 72.0 million feet of hole. Offshore rig count is projected to rise 7% in 2011 and average 297 active units accounting for 3,089 new wells and 30.0 million feet of hole drilled. Overall International rig activity is expected to rise 5% in 2011, with regional trends as follows: Africa (+6%), Central and South America (+6%), the Far East (+5%), Europe (+5%), and the Mid East (+3%).



Overall International rig activity has risen sharply after touching bottom in Q3 2009 and now stands back at the level of the most recent cyclical peak (reached in September 2008). In an environment in which oil and gas prices are significantly lower than what they were in Q3 2008 and the outlook is for little or no growth in commodity prices over the short-to-mid term, we think that most of the bounce in drilling activity off the bottom has already taken place. As a result, we expect further gains in overall International rig count over the balance of this year and next to be limited. The opportunity for outsized gains in drilling activity are likely to come in markets where operators have made significant new discoveries (i.e., Brazil) or markets starved for new supplies either due to rapidly-growing demand or rapidly-falling reserves (i.e., Argentina).

	INTERNATIONAL											
	RIGS			WELLS			FOOTAGE (MIL)			SPENDING (BIL)		
	Land	Off	Total	Land	Off	Total	Land	Off	Total	Land	Off	Total
2000	466	177	643	6,070	1,907	7,977	36.0	17.7	53.6	\$14.2	\$20.9	\$ 35.1
2001	525	209	734	7,423	2,195	9,618	46.6	20.8	67.5	\$18.6	\$24.9	\$ 43.5
2002	507	216	723	7,091	2,063	9,154	44.3	20.6	64.8	\$18.9	\$24.3	\$ 43.2
2003	543	217	761	7,630	2,108	9,737	46.4	20.4	66.8	\$20.4	\$25.9	\$ 46.3
2004	594	231	825	7,961	2,134	10,095	49.4	21.4	70.8	\$21.2	\$26.3	\$ 47.5
2005	643	250	893	8,464	2,362	10,826	52.9	23.9	76.8	\$25.5	\$31.1	\$ 56.7
2006	656	252	909	9,329	2,611	11,940	59.2	25.4	84.7	\$31.5	\$38.3	\$ 69.8
2007	720	267	987	10,240	2,687	12,926	64.4	26.0	90.3	\$37.9	\$43.7	\$ 81.7
2008	784	275	1,058	11,138	2,886	14,024	69.2	28.0	97.2	\$44.3	\$51.5	\$ 95.8
2009	722	251	973	10,426	2,582	13,008	65.3	25.5	90.8	\$45.1	\$49.7	\$ 94.9
2010 Q1	769	269	1,038	2,758	688	3,446	17.2	6.7	23.9	\$10.8	\$12.2	\$ 23.0
Q2	782	278	1,060	2,775	704	3,479	17.3	6.9	24.2	\$10.9	\$12.3	\$ 23.2
Q3	803	286	1,089	2,821	739	3,560	17.5	7.2	24.7	\$11.1	\$13.0	\$ 24.2
Q4	806	280	1,086	2,843	726	3,569	17.5	7.1	24.6	\$11.2	\$12.8	\$ 24.0
Total	790	278	1,068	11,197	2,856	14,053	69.5	28.0	97.5	\$44.0	\$50.3	\$ 94.4
2011 Q1	805	288	1,093	2,834	746	3,580	17.5	7.3	24.8	\$11.2	\$13.2	\$ 24.4
Q2	824	296	1,120	2,907	766	3,673	18.0	7.5	25.5	\$11.4	\$13.6	\$ 25.0
Q3	828	301	1,129	2,930	779	3,709	18.1	7.6	25.7	\$11.5	\$13.9	\$ 25.4
Q4	839	301	1,140	2,966	778	3,743	18.4	7.6	26.0	\$11.6	\$13.9	\$ 25.5
Total	824	297	1,120	11,636	3,069	14,705	72.0	30.0	102.0	\$45.7	\$54.6	\$100.3
2012	843	307	1,150	11,838	3,175	15,013	73.4	31.3	104.7	\$46.9	\$57.3	\$104.1
2013	866	319	1,185	12,135	3,289	15,424	75.3	32.4	107.7	\$50.5	\$62.4	\$112.9
2014	890	331	1,221	12,425	3,409	15,834	77.1	33.5	110.6	\$54.3	\$68.0	\$122.3
2015	914	344	1,259	12,730	3,536	16,266	79.0	34.7	113.7	\$58.4	\$74.2	\$132.7
2016	940	358	1,299	13,047	3,672	16,719	81.0	36.0	117.0	\$62.9	\$81.1	\$144.0

Sources: Baker Hughes, Spears and Associates

Activity in China is forecast to rise 2% in 2010 after having dropped 6% last year. Drilling is expected to climb 1% in 2011 as work shifts toward offshore oil development and onshore gas exploration and development.

Recently China's National Development and Reform Commission increased the wellhead price of domestically-produced onshore gas by 23%, to \$4.78/mcf. In addition, sellers are allowed to charge up to 10% above or below the new price. The higher price is expected to help boost onshore gas production efforts by PetroChina and Sinopec, as well as dampen gas demand growth which has been running at the rate of 10% per year.

PetroChina will drill 327 CBM wells at its Hancheng field over a two-year period ending in 2010. Most of its CBM potential is located in the Xinjiang province of northwest China. PetroChina and BP have agreed to form a partnership to develop CBM reserves in the Shaerhu block of the Tula basin in the Xinjiang province.

Chevron will drill 14 production wells from four pads and build a gas plant as part of its first phase development of the Chuandongbei sour gas development in the Sichuan province. First gas is expected to flow by the end of 2011. Phases 2 (developing the Tieshanpo field) and 3 (developing the Dukuohu and Qilibei fields) each would involve constructing three well pads.

PetroChina has taken over development of the Sulige South tight gas field from Total. PetroChina already operates the nearby Sulige North field, which produced 1.75 mmcf in 2009 from 800 wells, up almost four-fold from 2008. Well costs at Sulige North are about 8 million yuan (\$1.18 million) and gas is priced at about \$2.84/mcf.

PetroChina is stepping up gas exploration and development at the Daqing field. Gas output from the field is expected to reach 400 mmcf in 2015, up from 100 mmcf in 2010. Most of Daqing's gas reserves are located in

volcanic reservoirs at an average depth of 4,000 meters (13,200 feet). The key gas field in the region, Xuchen, also has high CO₂ content. PetroChina is developing the Tazhong-1 gas field in the Tarim basin, with production to eventually reach 2 bcf/d.

	CHINA											
	RIGS			WELLS			FOOTAGE (MIL)			SPENDING (MIL)		
	Land	Off	Total	Land	Off	Total	Land	Off	Total	Land	Off	Total
2000	670	9	679	10,001	54	10,055	53.5	0.4	53.9	NA	\$ 940	NA
2001	670	11	681	9,751	63	9,814	51.7	0.5	52.2	NA	\$1,080	NA
2002	641	9	650	9,946	53	9,999	76.6	0.6	77.2	NA	\$ 905	NA
2003	615	10	625	12,234	59	12,293	93.0	0.7	93.7	NA	\$1,008	NA
2004	681	11	692	13,077	165	13,242	96.8	1.8	98.5	NA	\$2,300	NA
2005	765	15	780	16,202	220	16,422	119.9	2.3	122.2	NA	\$2,900	NA
2006	863	17	880	16,040	244	16,285	120.3	2.6	122.9	NA	\$3,544	NA
2007	870	19	889	16,361	273	16,634	122.7	2.9	125.6	NA	\$4,358	NA
2008	868	20	888	18,161	288	18,448	136.2	3.1	139.3	NA	\$5,046	NA
2009	814	24	838	15,255	342	15,597	114.4	3.6	118.1	NA	\$5,404	NA
2010	822	30	852	15,408	431	15,839	115.6	4.6	120.1	NA	\$6,130	NA
2011	830	31	861	15,562	446	16,008	116.7	4.7	121.5	NA	\$6,335	NA
2012	839	31	870	15,717	450	16,168	117.9	4.8	122.7	NA	\$6,398	NA
2013	847	32	879	15,875	455	16,329	119.1	4.8	123.9	NA	\$6,785	NA
2014	856	32	887	16,033	459	16,493	120.3	4.9	125.1	NA	\$7,196	NA
2015	864	32	896	16,194	464	16,658	121.5	4.9	126.4	NA	\$7,631	NA
2016	873	33	905	16,356	468	16,824	122.7	5.0	127.7	NA	\$8,093	NA

Sources: CNPC (land rigs), Baker Hughes (offshore rigs), Spears and Associates

Russian drilling is projected to rise 5% in 2010, followed by a 6% increase next year. However, a proposal to raise the oil production tax later this year in order to close the government's budget deficit may cut funding available for field development projects³.

The Russian Finance Ministry has proposed increasing taxes on oil and gas as a way to reduce the government's budget deficit. One proposal is to increase the tax on gas production from \$0.14 per mcf to \$0.22 per mcf and then index it to inflation after 2011. The ministry has also proposed indexing the oil production tax, which is currently about \$13 per bbl, to inflation starting in 2012.

	RUSSIA											
	RIGS			WELLS			FOOTAGE (MIL)			SPENDING (MIL)		
	Land	Off	Total	Land	Off	Total	Land	Off	Total	Land	Off	Total
2000	40	0	40	4,714	5	4,719	33.8	0.1	33.9	\$ 5,073	\$ 50	\$ 5,123
2001	76	1	77	5,140	5	5,145	36.9	0.1	36.9	\$ 5,532	\$ 50	\$ 5,582
2002	71	1	73	4,401	5	4,406	31.0	0.1	31.1	\$ 4,654	\$ 50	\$ 4,704
2003	325	2	327	4,505	5	4,510	31.5	0.1	31.6	\$ 4,730	\$ 50	\$ 4,780
2004	355	2	356	3,527	10	3,537	29.5	0.1	29.6	\$ 4,418	\$100	\$ 4,518
2005	439	1	440	3,802	10	3,812	32.1	0.1	32.2	\$ 4,819	\$100	\$ 4,919
2006	539	2	541	4,715	10	4,725	39.8	0.1	39.9	\$ 5,976	\$100	\$ 6,076
2007	648	4	652	5,587	10	5,597	47.2	0.1	47.3	\$ 7,789	\$110	\$ 7,899
2008	734	5	740	6,331	20	6,351	53.5	0.2	53.7	\$ 9,710	\$242	\$ 9,952
2009	758	4	761	6,532	20	6,552	55.2	0.2	55.4	\$ 9,016	\$218	\$ 9,234
2010	790	10	800	6,812	20	6,832	57.6	0.2	57.8	\$ 8,462	\$196	\$ 8,658
2011	835	14	849	7,200	20	7,220	60.8	0.2	61.0	\$ 9,392	\$206	\$ 9,597
2012	852	14	866	7,344	25	7,369	62.1	0.3	62.3	\$10,058	\$270	\$10,329
2013	869	15	883	7,491	25	7,516	63.3	0.3	63.5	\$10,773	\$284	\$11,056
2014	886	15	901	7,641	30	7,671	64.6	0.3	64.9	\$11,537	\$357	\$11,895
2015	904	15	919	7,793	30	7,823	65.9	0.3	66.2	\$12,357	\$375	\$12,732
2016	922	15	937	7,949	30	7,979	67.2	0.3	67.5	\$13,234	\$394	\$13,628

Sources: M-I Swaco, Spears and Associates

³ It should be noted that measurement of Russia rig activity was incomplete prior to 2003.

A final investment decision on the \$15 billion Shtokman first phase development project is due by March 2011. First pipeline gas is expected in 2016 while first LNG exports are projected for 2017. Lukoil hopes to start production from its Caspian Sea fields (Filanovskogo, 2017; Sarmatskoye, 2016; Khazri, 2018), but is likely to need some tax relief assistance from the government before pursuing these projects due to their low reserve figures.

Rig count in Central Asia (Kazakhstan, Turkmenistan, and Azerbaijan) continues to move ahead; a 3% increase in activity is currently forecast for 2011 following a 5% gain this year. Drilling activity in this region still remains below its 2008 peak, but has stabilized in recent months. Little change from the current level is expected before 2011⁴.

As of July 2010 M-I Swaco reported a total of 88 drilling rigs (87 onshore; one offshore) working in Kazakhstan. Completion of the giant Kashagan oilfield's second phase development may be delayed to 2018 or 2019 after the Kazakhstan government ordered a review of the project costs. Phase 1 is expected to come onstream at 450,000 bpd in 2012, while phase 2 had been projected to increase output to 1.0 million bpd. KazMunaiGas Exploration Production is projected to almost double its capital spending in 2010 to \$555 million, of which about half is earmarked for development drilling. It hopes to increase output from the current level of 280,000 bpd to 460,000 bpd by 2020. KNOC leads a consortium that will begin exploring the offshore Zhambyl prospect in 2012. The field is estimated to hold up to 1 billion barrels of oil. The next development phase at Chevron's Tengiz oilfield could add between 250,000 bpd and 300,000 bpd, taking overall output up to 900,000 bpd between 2014 and 2016.

As of July 2010 M-I Swaco reported a total of 130 drilling rigs (126 land; four offshore) working in Turkmenistan. Dragon Oil plans to spud 35 development wells at its offshore Lam block in Turkmenistan between 2010 and 2020. Well depth in the area is about 11,000 feet. Chevron, ConocoPhillips, TXOil and Mubadala Oil & Gas were chosen as preferred bidders for offshore exploration blocks #9 and #20. In all, there are 32 blocks up for tender in the current round.

	CENTRAL ASIA											
	RIGS			WELLS			FOOTAGE (MIL)			SPENDING (MIL)		
	Land	Off	Total	Land	Off	Total	Land	Off	Total	Land	Off	Total
2000	11	3	14	460	13	473	2.4	0.1	2.5	\$ 362	\$ 133	\$ 496
2001	18	4	22	705	17	722	4.0	0.2	4.2	\$ 603	\$ 167	\$ 769
2002	33	6	39	720	25	745	4.0	0.2	4.2	\$ 594	\$ 247	\$ 841
2003	60	6	66	715	24	739	3.9	0.2	4.1	\$ 579	\$ 240	\$ 819
2004	187	7	194	815	27	842	4.4	0.3	4.7	\$ 660	\$ 273	\$ 933
2005	173	8	181	800	34	834	4.8	0.3	5.1	\$ 720	\$ 337	\$1,057
2006	180	15	195	1,024	46	1,070	6.8	0.5	7.2	\$1,014	\$ 457	\$1,470
2007	212	26	239	1,042	58	1,100	6.9	0.6	7.5	\$1,135	\$ 634	\$1,769
2008	248	33	281	1,070	80	1,150	7.1	0.8	7.9	\$1,282	\$ 964	\$2,246
2009	227	31	258	982	74	1,056	6.5	0.7	7.2	\$1,059	\$ 804	\$1,864
2010	233	37	270	1,007	89	1,096	6.6	0.9	7.5	\$ 977	\$ 871	\$1,848
2011	240	38	278	1,038	92	1,129	6.8	0.9	7.8	\$1,007	\$ 897	\$1,904
2012	247	39	286	1,069	94	1,163	7.1	0.9	8.0	\$1,037	\$ 924	\$1,961
2013	255	40	295	1,101	97	1,198	7.3	1.0	8.2	\$1,121	\$ 999	\$2,121
2014	262	42	304	1,134	100	1,234	7.5	1.0	8.5	\$1,213	\$1,081	\$2,294
2015	270	43	313	1,168	103	1,271	7.7	1.0	8.7	\$1,312	\$1,169	\$2,481
2016	278	44	322	1,203	106	1,309	7.9	1.1	9.0	\$1,419	\$1,264	\$2,683

Sources: M-I Swaco, Spears and Associates

As of July 2010 M-I Swaco reported a total of 55 drilling rigs (23 land; 32 offshore) working in Azerbaijan. Work on BP's Chirag Oil Project offshore Azerbaijan will involve drilling up to 16 development wells and building a new 48-slot production platform for the field. Drilling on this project will begin in Q4 2010. First production is slated for 2013 at 185,000 bpd of oil and 60 mmcf of gas. After the Chirag project is complete BP is looking at phase 4 development of the Azeri oilfield.

4 It should be noted that measurement of rig count was incomplete in Central Asia until 2003.

GLOBAL OILFIELD DRILLING SERVICES MARKET

Description

The oilfield drilling services market as addressed in this study includes the following services: onshore contract drilling, mud engineering, and cementing.

Onshore contract drilling is performed by a company (the drilling contractor) that owns and operates a drilling rig. The drilling contractor usually charges a fixed daily rate for the use of its rig and crew, plus certain operating expenses such as mobilizing/demobilizing the rig, fuel, etc.

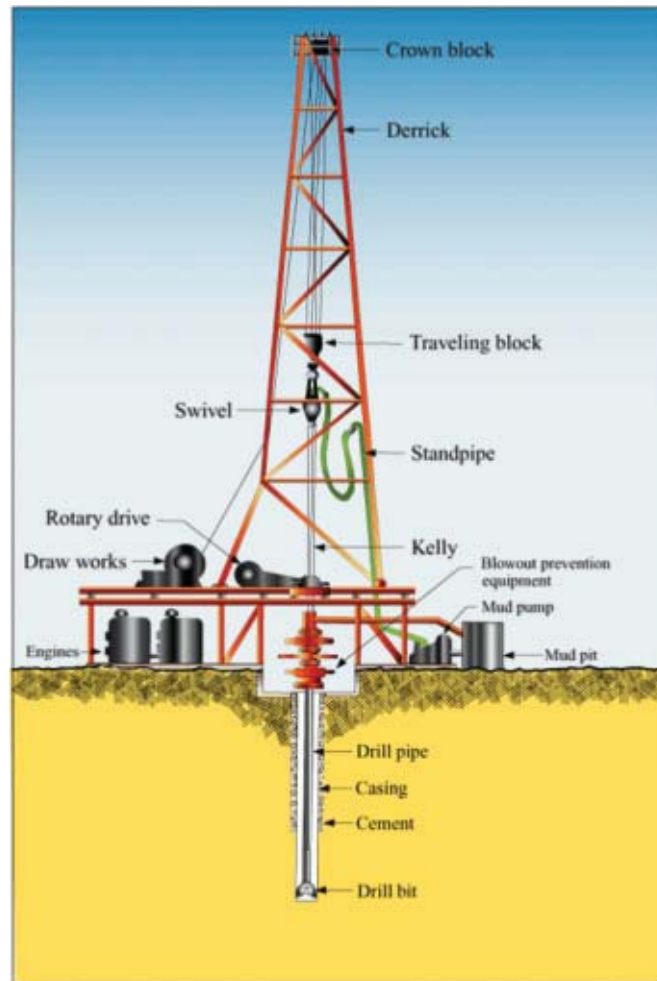


Figure 1: Schematic of an onshore drilling rig

Land contract drilling is characterized as a highly fragmented, localized, cyclical, business. When demand drops, rig rates fall quickly toward cash costs as contractors take steps to keep their rig utilization high. As utilization exceeds 90%, day rates begin rise quickly since supply is inelastic.

In North America most rigs are hired only on a per-well or short-term basis and serve the market within a 50 mile radius from its yard. Internationally most rigs work under long-term (up to three year) day rate contracts, but rigs rarely cross national borders in order to secure contracts.

Mud engineering consists of testing the drilling fluids (mud) at a rig and prescribing mud treatments to maintain mud weight, properties and chemistry to optimize mud performance. Mud companies almost always

have a mud engineer on duty at the rig, either on a full-time or part-time basis. The mud engineer may be provided by the mud company providing the product to the customer (typical in North America) or hired separately by the operator from a third party not associated with the products used (typical outside North America).

Cementing takes place when cement is prepared and pumped into place in a wellbore. Cementing operations may be performed in order to seal the annulus after a casing string has been run, to seal a lost circulation zone, to set a plug in a well in order to assist in further drilling, or to plug a well so that it may be abandoned. A cementing crew uses special mixers and pumps to displace drilling fluids and place cement in the wellbore. For a new well, cementing typically takes place three or four times during the drilling process: to set conductor pipe, to set surface casing, to set intermediate casing, and to set production casing.

Market Size

Onshore Contract Drilling

It is estimated that the global onshore contract drilling market totaled \$25.3 billion in 2009, of which North America was the largest regional market (38%), followed by South America (14%), China (12%), and Russia (11%)⁵.

The global onshore contract drilling market is projected to increase at a 7.8% CAGR over the 2009 to 2015 timeframe, reaching \$39.8 billion in 2015.

Onshore Contract Drilling Market (\$ Billion)

<u>Region</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	\$ 2.8	\$ 3.1	\$ 3.2	\$ 3.2	\$ 3.0	\$ 3.0	\$ 3.1	\$ 3.2	\$ 3.4	\$ 3.5	\$ 3.7
North America	\$10.3	\$15.4	\$15.6	\$16.8	\$ 9.5	\$13.2	\$15.4	\$16.3	\$17.2	\$18.2	\$19.2
South America	\$ 1.7	\$ 2.1	\$ 2.9	\$ 3.7	\$ 3.6	\$ 3.5	\$ 3.8	\$ 4.0	\$ 4.2	\$ 4.4	\$ 4.7
Europe	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
Africa	\$ 0.5	\$ 0.6	\$ 0.9	\$ 1.2	\$ 1.1	\$ 1.1	\$ 1.2	\$ 1.3	\$ 1.4	\$ 1.6	\$ 1.7
Mid East	\$ 1.1	\$ 1.3	\$ 1.9	\$ 2.2	\$ 2.2	\$ 2.0	\$ 2.1	\$ 2.2	\$ 2.3	\$ 2.4	\$ 2.5
Far East	\$ 0.9	\$ 1.1	\$ 1.5	\$ 1.9	\$ 2.0	\$ 1.9	\$ 2.0	\$ 2.1	\$ 2.3	\$ 2.4	\$ 2.6
Russia	\$ 1.6	\$ 2.0	\$ 2.4	\$ 2.7	\$ 2.8	\$ 2.9	\$ 3.1	\$ 3.3	\$ 3.5	\$ 3.6	\$ 3.8
Central Asia	\$ 0.6	\$ 0.7	\$ 0.8	\$ 0.9	\$ 0.8	\$ 0.9	\$ 0.9	\$ 1.0	\$ 1.0	\$ 1.1	\$ 1.1
Total	\$19.8	\$26.5	\$29.3	\$33.1	\$25.3	\$28.9	\$32.2	\$33.9	\$35.8	\$37.8	\$39.8

Source: Spears and Associates

Mud Engineering

It is estimated that the global mud engineering market totaled \$1.3 billion in 2009, of which North America was the largest regional market (30%), followed by China (18%), and Russia (16%).

⁵ Throughout This report the following regions have been defined as follows: Central Asia—Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, and Ukraine; Mid East—Iran, Iraq, Israel, Kuwait, Oman, Qatar, Saudi Arabia, Syria, Turkey, UAE, and Yemen; Far East—Australia, India, Indonesia, Japan, Malaysia, Myanmar, New Zealand, Pakistan, Papua New Guinea, Thailand, and Vietnam. Also, China includes Hong Kong.

The global mud engineering market is projected to increase at an 8.2% CAGR over the 2009 to 2015 timeframe, reaching \$2.1 billion in 2015.

Mud Engineering Services Market (\$ Billion)

<u>Region</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	\$0.21	\$0.24	\$0.25	\$0.24	\$0.23	\$0.24	\$0.25	\$0.26	\$0.27	\$0.28	\$0.29
North America	\$0.54	\$0.63	\$0.62	\$0.66	\$0.39	\$0.55	\$0.65	\$0.68	\$0.72	\$0.76	\$0.80
South America	\$0.13	\$0.13	\$0.14	\$0.15	\$0.14	\$0.15	\$0.17	\$0.18	\$0.19	\$0.20	\$0.22
Europe	\$0.03	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.05	\$0.05	\$0.05
Africa	\$0.04	\$0.04	\$0.05	\$0.05	\$0.04	\$0.06	\$0.06	\$0.07	\$0.07	\$0.08	\$0.08
Mid East	\$0.08	\$0.07	\$0.08	\$0.08	\$0.07	\$0.08	\$0.08	\$0.09	\$0.09	\$0.10	\$0.10
Far East	\$0.10	\$0.10	\$0.11	\$0.11	\$0.10	\$0.11	\$0.12	\$0.13	\$0.13	\$0.14	\$0.15
Russia	\$0.12	\$0.15	\$0.18	\$0.20	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.28	\$0.29
Central Asia	\$0.05	\$0.05	\$0.07	\$0.08	\$0.07	\$0.08	\$0.08	\$0.09	\$0.09	\$0.10	\$0.10
Total	\$1.30	\$1.45	\$1.52	\$1.63	\$1.30	\$1.53	\$1.69	\$1.78	\$1.88	\$1.98	\$2.09

Source: Spears and Associates

Cementing Services

It is estimated that the global cementing services market totaled \$7.7 billion in 2009, of which North America was the largest regional market (38%), followed by South America (14%), China (12%), and Russia (11%).

The global mud engineering market is projected to increase at an 9.8% CAGR over the 2009 to 2015 timeframe, reaching \$13.4 billion in 2015.

Cementing Services Market (\$ Billion)

<u>Region</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	\$1.3	\$1.3	\$1.3	\$ 1.5	\$1.3	\$1.3	\$ 1.3	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.6
North America	\$5.4	\$5.9	\$5.8	\$ 6.3	\$4.0	\$5.7	\$ 6.7	\$ 7.1	\$ 7.5	\$ 7.9	\$ 8.3
South America	\$0.5	\$0.5	\$0.6	\$ 0.6	\$0.6	\$0.6	\$ 0.7	\$ 0.7	\$ 0.8	\$ 0.8	\$ 0.9
Europe	\$0.2	\$0.2	\$0.2	\$ 0.2	\$0.2	\$0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.3
Africa	\$0.2	\$0.2	\$0.3	\$ 0.3	\$0.3	\$0.3	\$ 0.3	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4
Mid East	\$0.2	\$0.2	\$0.3	\$ 0.3	\$0.2	\$0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3
Far East	\$0.4	\$0.5	\$0.5	\$ 0.5	\$0.5	\$0.5	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.7
Russia	\$0.3	\$0.4	\$0.5	\$ 0.5	\$0.6	\$0.6	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.8
Central Asia	\$0.1	\$0.1	\$0.1	\$ 0.1	\$0.1	\$0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Total	\$8.6	\$9.4	\$9.5	\$10.3	\$7.7	\$9.6	\$10.8	\$11.4	\$12.0	\$12.7	\$13.4

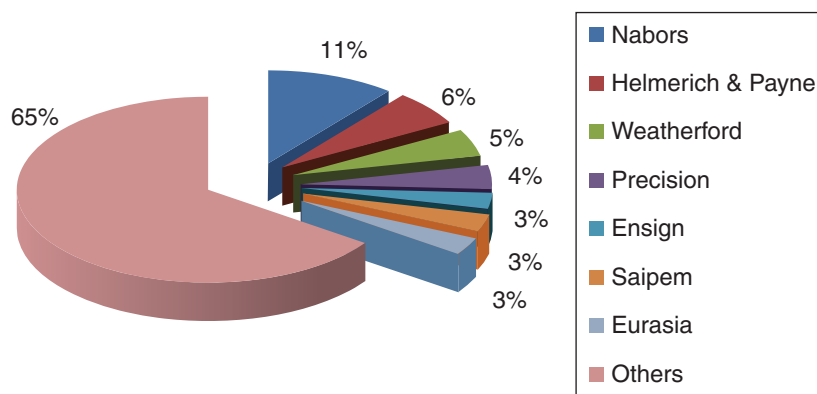
Source: Spears and Associates

Main Service Providers and Market Share

Onshore Contract Drilling

There are an estimated 500 drilling contractors (70% in North America, 30% outside North America) serving the \$25.3 billion global onshore contract drilling market. In terms of sales the market is dominated by North America-based multinational firms such as Nabors Industries, Helmerich & Payne, and Weatherford.

**Global Onshore Contract Drilling Market -
2009 Sales**



Source: Spears and Associates

The following is a profile of the leading onshore contract drilling companies:

Nabors Industries—A publicly-traded diversified oilfield services company. Its onshore drilling rig fleet operates in the following regions: North America, South America, Africa, the Mid East, and the Far East. It also operates offshore platform drilling rigs.

Helmerich & Payne—A publicly-traded drilling contractor with onshore drilling operations in North and South America and offshore platform drilling rigs.

Weatherford—A publicly-traded diversified oilfield services company. Its onshore drilling rig fleet operates in the following regions: South America, Africa, the Mid East, and the Far East.

Precision Drilling—A publicly-traded diversified oil services company. Its onshore drilling rig fleet operates in North America and South America.

Ensign Drilling—A publicly-traded drilling contractor. Its onshore drilling rig fleet operates in North America and South America.

Saipem—A publicly-traded diversified oilfield service firm. Its onshore drilling rig fleet operates in the following regions: South America, Europe, Africa, and the Mid East.

Eurasia Drilling—A diversified oilfield service firm primarily serving the Russian market. It currently captures about 25% of the Russian drilling market.

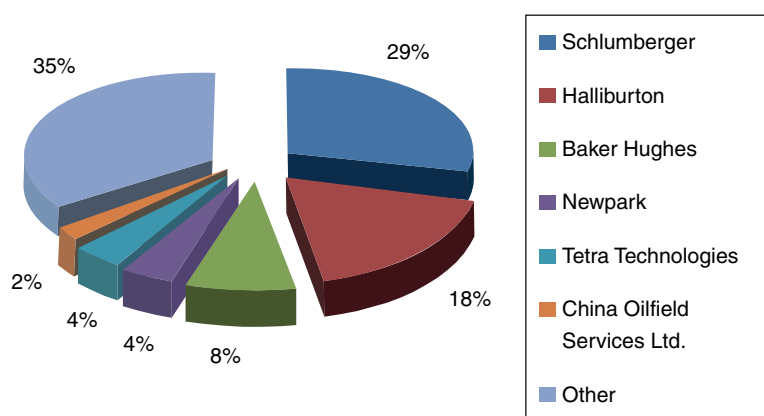
San Antonio—A privately-held diversified oilfield service firm. Its onshore drilling rig fleet operates in South America.

Great Wall Drilling—a division of China National Petroleum Company (CNPC) which provides onshore contract drilling and other drilling-related services. It operates in China, Africa, the Mid East, Central Asia, and South America.

Mud Engineering

In terms of revenues the \$1.3 billion global mud engineering market is dominated by North America-based multinational firms such as M-I Swaco (a division of Schlumberger), Baroid (a division of Halliburton), and Inteq (a division of Baker Hughes International).

**Global Mud Engineering Market -
2009 Sales**



Source: Spears and Associates

The following is a profile of the leading mud engineering companies:

M-I Swaco—A division of Smith International, which was recently purchased (2010) by Schlumberger, a publicly-traded diversified oil services company.

Halliburton—A publicly-traded diversified oil services company. Its Baroid division provides both drilling fluids and mud engineering services to a global clientele.

Baker Hughes—A publicly-traded diversified oil services company. Its Inteq division provides both drilling fluids and mud engineering services to a global clientele.

Newpark Resources—a publicly traded diversified oil services company. It provides drilling fluids and mud engineering services primarily in North America.

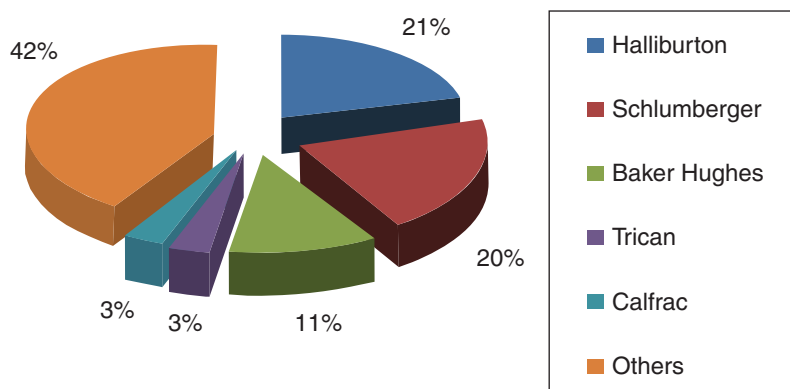
Tetra Technologies—a publicly traded diversified oil services company. It provides drilling fluids and mud engineering services primarily in North America.

China Oilfield Services Ltd.—a publicly traded diversified oil services company. It is based in China but provides drilling fluids and mud engineering services primarily in the offshore China market, the Mid East, Africa, the Far East, Central Asia, and South America.

Cementing Services

In terms of revenues the \$7.7 billion global cementing services market is dominated by North America-based multinational firms such as Halliburton, Schlumberger, and BJ Services (a division of Baker Hughes International).

**Global Cementing Services Market -
2009 Sales**



Source: Spears and Associates

The following is a profile of the leading cementing services companies:

Halliburton—A publicly-traded diversified oil service company that provides cementing services around the world.

Schlumberger—A publicly-traded diversified oil service company that provides cementing services around the world.

Baker Hughes—A publicly-traded diversified oil service company that through its recent acquisition of BJ Services also has a presence in the global cementing services market, but with a heavy concentration in the US, Canadian and Mexican markets.

Competitive Environment

In all markets the selection of a drilling services firm (drilling contractor, mud engineering firm, cementing service company) is typically made by the oil company's drilling department and procurement department following a competitive bid process. The most important selection criteria is typically price, although other factors do come into play including type of well, past experience/reputation, technical sophistication, condition of equipment, and experience of personnel.

Barriers to entering the drilling services market can be very high. The drilling services market is capital intensive and requires both well-maintained equipment and experienced personnel in order to be competitive. In addition, it takes time for drilling services firms to establish a proven track record in order to find wide acceptance in the market. Developing proprietary technology is often critical in order to be able to compete for high-risk "critical service" assignments.

In China demand for drilling services is highly concentrated: two operators (CNPC and Sinopec) account for approximately 90% of the demand for drilling services. Both CNPC and Sinopec have regional in-house drilling services subsidiaries which tend to compete on price on low-risk projects for their parent company. The in-house

drilling service subsidiaries of CNPC and Sinopec are estimated to capture 80%-90% of the drilling services market in China. In addition, more than 20 independent Chinese-owned drilling service firms are estimated to compete in the Chinese market, along with the China-based subsidiaries of multinational oilfield drilling services firms such as Schlumberger, Halliburton, and Baker Hughes. When drilling services are needed, the purchasing department of the oil company will solicit bids from multiple sources on the approved vendors list. The selection of a drilling services firm is typically made by the oil company's drilling department and procurement department following a competitive bid process. Drilling services may be sold under an annual contract or on a well-to-well basis.

In terms of demand, the Russian drilling services market is not as highly concentrated as China. The larger Russia oil companies often have in-house regional drilling services subsidiaries which tend to compete on price on low-risk projects for their parent company. These in-house drilling service subsidiaries are believed to capture the majority of the drilling services market in Russia. When drilling services are needed, the purchasing department of the oil company will solicit bids from multiple sources on the approved vendors list. The selection of a drilling services firm is typically made by the oil company's drilling department and procurement department following a competitive bid process. Drilling services may be sold under an annual contract or on a well-to-well basis.

In terms of demand, the drilling services market outside China and Russia is divided among thousands of end-users, the largest of which is estimated to account for no more than 5% of the overall market. Most customers are oil companies, although the drilling contractor may sometimes be the customer, as in the case of some offshore drilling being done in the Gulf of Mexico on a turnkey basis where the contractor acts as the drilling manager. Market penetration requires significantly more marketing and sales resources than is the case in China and Russia. Outside of China and Russia no one service firm dominates the drilling services market. In most markets competitors include: (1) large multinational oilfield service firms with significant financial and technical resources focused primarily on high-risk "critical service" projects, and (2) local or regional firms with detailed knowledge about local surface or downhole drilling conditions which allows them to more precisely estimate operating time/costs and thus underbid competitors that have less local knowledge. In some countries the in-house drilling service subsidiary of the national oil company is yet another competitor. The selection of a drilling services firm is typically made by the oil company's drilling department and procurement department following a competitive bid process. Drilling services may be sold under an annual contract or on a well-to-well basis.

Purchasing Process

Onshore Contract Drilling

The selection of a drilling contractor is typically made by the oil company's drilling engineer following a competitive bid process. The most important selection criteria is typically price, although other factors do come into play including past experience/reputation, condition of equipment, and experience of personnel. Local or regional firms are often able to compete with national or international contractors because their detailed knowledge about local downhole drilling conditions allows them to more precisely estimate drilling time and thus underbid larger competitors that are more remotely located.

Mud Engineering

Operators are the primary customers of mud companies. However, the drilling contractor may sometimes be the customer, as in the case of some offshore drilling being done in the Gulf of Mexico on a turnkey basis where the contractor acts as the drilling manager.

Since operators generally perceive drilling fluids as commodity items, the key selection factors are price and service/support. The price of drilling fluids is usually evaluated in terms of \$/well or \$/foot, taking into account performance of the fluid as well as unit price.

Drilling fluids may be sold under an annual contract or on a well-to-well basis. Pricing is typically quoted as a percent off list for each product covered under the contract.

Major service companies dominate the drilling fluids market in areas that require high-technology applications (deep, high-pressure, offshore, etc.).

Cementing Services

Cementing services are sold to whoever is in charge of drilling a well. This is most often the oil company, but in the North American market when a well is being drilled under a turnkey contract it is the drilling contractor. When an oil company selects the cementing service firm the drilling engineer holds the key buying influence. Most cementing service firms work under well-to-well contractors for small and mid-size oil companies, but in North America cementing service firms work under one-year contractors and outside North America most cementing service firms work under long-term (up to three year) contracts.

Service, availability, reliability, and price are typically the key factors in the selection of a cementing service company.

Breakdown of the Cost to Drill a Well

Payments to the drilling contractor (for drilling rig mobilization/de-mobilization, drilling rig use, labor, fuel, etc.) typically account for 25%-35% of the total cost to drill a new onshore well. Casing and tubing used to line the wellbore is typically the second largest cost element of a newly-drilled onshore well, typically accounting for 15%-20% of the total cost of the well. The balance of the total well cost is associated with the use of a broad range of downhole products and services—drill bits, drilling fluid, logging services, supervision, completion equipment, cementing services, etc.

Synergies Between Drilling Service and Manufacturer of Drill Pipe and Coating Service Provider

A contract drilling firm which also makes drill pipe potentially has a cost advantage over other contract drilling firms which must source their drilling equipment from third parties at market prices. For example, at present the cost of a fully-equipped new western-built onshore drilling rig rated to drill 5,000 meters is estimated to be \$25-\$30 million⁶. It is estimated that for most drilling contractors about 25%-30% of their total capital outlay is spent on purchasing drill pipe. As a result, savings of the cost of procuring drill pipe by producing it in-house would allow an onshore drilling contractor to charge lower rig rates, providing an advantage when competing for work for price-conscious oil and gas companies.

Another potential advantage of a contract drilling firm that makes drill pipe is that it may be able to leverage proprietary information (acquired through drill pipe research and development) in such as way as to achieve superior drilling performance.

Vertical synergies

In line with Hilong's strategy of vertically integrating drill pipe manufacturing/coating and contract drilling, there are several examples of other oilfield service firms that have vertically integrated in order to achieve superior performance. As a rule, these instances occur in key technology areas where the oilfield service firm has made significant R&D efforts that can provide important performance and cost advantages. Some examples include:

Nabors Industries, the largest onshore contract drilling company, which also owns rig data acquisition and information management products and services.

Halliburton, the largest pressure pumping services company, which manufactures its own cementing and stimulation equipment.

⁶ Chinese-built drilling rig costs are estimated to be 25%-30% less than that of western-built drilling rigs.

Schlumberger, Halliburton, and Baker Hughes, the leading directional drilling service companies, which manufacture their own directional drilling tools.

Pricing Trends and Expectations

Onshore Contract Drilling

Average US land rig rates in Q2 2010 were about \$19,500 per day, up 4% from the previous quarter but 3% lower than the year-ago level. We expect that US land rig rates will move higher through year-end and average around \$19,750 per day in 2010, down about 3% for the year. With US rig count trending higher, we believe that average rig rates will increase 5%-8% in 2011; however, continued low overall fleet utilization is likely to cap additional gains over the near term.

Beyond 2011 we expect that US land rig day rates will increase at an average annual rate of 3%; future additions to the US rig fleet are expected to offset further improvements in rig activity, leaving overall rig fleet utilization near current levels.

Canadian drilling contractors reported that their land rig rates in Q2 2010 averaged C\$16,300 per day, up 5% from the prior quarter but down 10% from Q2 2009. We expect that Canadian land rig rates will average C\$16,000 in 2010, down about 10% for the year. However, the upturn expected in Canadian drilling activity will somewhat improve rig utilization and may prompt a slight increase in rig rates in the coming year.

Going forward we expect that Canadian land rig day rates will increase at an average annual rate of 3%; while no future additions to the Canadian rig fleet are expected over the forecast timeframe, the low utilization of the Canadian rig fleet is not expected to improve sufficiently to allow drilling contractors to increase prices faster than the overall rate of inflation.

International land rig day rates averaged about \$30,400 per day in Q2 2010, down 3% from the prior quarter and down about 13% from Q2 2009. We estimate that International land rig rates will average around \$30,000 per day in 2010, down from about \$35,000 per day last year; as shown by the following chart, the overall trend in average International land rig rates has generally been flat for the first two quarters of this year.

Going forward we expect that international land rig day rates will increase at an average annual rate of 3%; future additions to the rig fleet are expected to offset further improvements in rig activity, leaving overall rig fleet utilization near current levels.

Cementing Services

The cost of cementing services is not tracked outside the US. In the US the cost of cementing services is tracked in the Spears and Associates Drilling and Completion Services (DCS) Cost Index. The DCS Cost Index Cementing Services Cost series for Q3 2010 rose 5.3% from the prior quarter. This represents the first increase in cementing service costs since prices stabilized in Q3 2009. Going forward we expect that cementing service costs in the US will rise at an average annual rate of 3%; further improvements in rig activity that are forecast are expected to be insufficient to lift equipment utilization high enough to allow cementing service firms an opportunity to push prices significantly higher.

GLOBAL DRILL PIPE MARKET

Description

The drill pipe market as addressed in this study includes the sale of drill pipe, drill collars, and heavy weight drill pipe. It excludes the sale of non-magnetic drill collars. The market for welding wires for hardbanding is treated separately.

Drill pipe is used during drilling operations to connect the surface drilling equipment to the bottomhole assembly and the drill bit, and is used to transmit power from the drilling motor above ground to the drill bit and to conduct drilling fluid (mud) down to the drill bit to flush drill cuttings to the surface for removal. A section of drill pipe is called a "joint"; each joint is normally about thirty feet long with an outer diameter (OD) ranging from 2.375 to 6.625 inches, are joined to one another by tool joints to form the drill string. Drill pipe can also be produced to approximately forty feet (Range 3) lengths depending upon customer drilling rig requirements.

Drill pipe normally must have sufficient tensile strength to support its own weight, the weight of the contained drilling fluids, and the drill bit. Drill pipe is subject to stress caused by shearing vibration, and consequently fatigue. Normally a drill string is composed of drill collars at the bottom, which are connected to heavy weight drill pipe, which are then connected to standard weight drill pipe, which normally accounts for the vast majority of the drill string. The standard weight drill pipe, heavy weight drill pipe, and drill collars all normally perform the same purposes; they just vary by wall thickness and can also vary by production methods.

Both ends of each joint are threaded, with one end having the threads cut inside the pipe (the box), and the other end threaded on the outside (the pin). These ends are called tool joints, and are usually welded onto the drill pipe body (the mother tube) by a manufacturer with the threads cut to industry specifications. Drill pipe is usually formed from plain carbon steel. A drill string is the combination of the drill pipe, the bottomhole assembly, and the drill bit used to drill a well. Drill pipe is typically owned by the drilling contractor, although sometimes it is rented by the well operator from downhole tool rental companies for use in drilling a well or series of wells.

Drill collars are a part of the drill string that provides weight on bit for drilling. Drill collars are thick-walled tubes machined from solid bars of steel, usually plain carbon steel. The bars of steel are drilled from end to end to provide a passage to pumping drilling fluids through the collars. The outside diameter of the steel bars may be machined slightly to ensure roundness, and in some cases may be machined with helical grooves. Threaded connections are cut so multiple collars can be screwed together along with other downhole tools to make a bottomhole assembly. Drill collars are typically rented by the well operator from downhole tool rental companies for use in drilling a well or series of wells, although sometime drill collars are provided by the drilling contractor.

Heavy weight drill pipe (HWDP) is a type of drill pipe whose walls are thicker and collars are longer than conventional drill pipe. HWDP tends to be stronger and has higher tensile strength than conventional drill pipe, so it is placed near the bottom of a long drill string for additional support.

Manufacturing Process

Drill Pipe

Most specialized drill pipe manufacturers are semi-fabricators, purchasing green tubes from a mill, then heat treating the tube to specific metallurgical requirements, adding tool joints, and cutting threads to complete the manufacturing process. The price of finished drill pipe to the end user is about 3.5x-4.0x the cost of the mother tube from the mill.

Finished drill pipe is comprised of two components: (1) the pipe or tube component, and (2) the tool joint component. The majority of producers of finished drill pipe manufacture the product by purchasing the tube component of the finished drill pipe separate from the tool joint component, and then assembling the two together.

Drill pipe is first manufactured by seamless tube mills, and then further processed by finishing manufacturers. The producers of finished drill pipe are normally different than the producers of green tube used for producing drill pipe. Green tube, or semi-finished drill pipe, is manufactured at a seamless tube mill by either of two high temperature methods to form a central cavity in the solid steel billet, namely, the rotary piercing method and the hot extrusion method. Starting material for green tube is a round or square steel billet. If square billet is used, it is first forced through a single circular roll pass, producing a round billet for the piercing operation.

In the rotary piercing method, the heated billet is gripped by angled rolls, which cause it to rotate and advance over a piercer point, forming a hole through its length.

In the extrusion method, the billet is hot punch pierced and then extruded axially through a die and over a mandrill, forming a hollow shell.

The hollow shell produced by either method is then rolled with either a fixed plug or a continuous mandrill inside the shell to reduce the wall thickness, increasing the length. Finally, the shell is rolled in the sizing mill or a stretch reducing mill is formed to size.

Drill collars begin with a round steel bar which is then bored or trepanned in order to form a continuous seamless product.

Drill pipe manufacturers purchase unfinished green pipe to certain steel chemistries that allow the drill pipe processor to produce the appropriate API grade of drill pipe. The pipe ends on the green tubes are first processed by heating the ends of the pipe to forging temperature and then quickly inserting the pipe ends into a special forging press or upsetter. The press will form a pipe upset that is thicker than the pipe wall by pressing the hot metal around a set of special forging dies. Dimensional tolerances are required for the various pipe sizes and upset configurations, all of which are controlled by API dimensional tolerances. The upset pipe is then heat treated by any of several methods of thermal processes to the desired API grade, with the drill pipe processor using a specific green tube chemistries to produce the final API drill pipe grade, depending upon their thermal treatment process.

A tool joint is then welded to each end of the pipe; the male tool joint section (or pin) with male threads on the outside of the pipe, is attached to one end of the length of drill pipe and the female tool joint section (or box) with female threads on the inside, is attached to the other end.

A tool joint is a heavy coupling element made of special-alloy steel having robust, tapered threads and seating shoulders designed to sustain the weight of the drill stem, withstand the strain of repeated connection and disconnection, and provide a leak-proof seal.

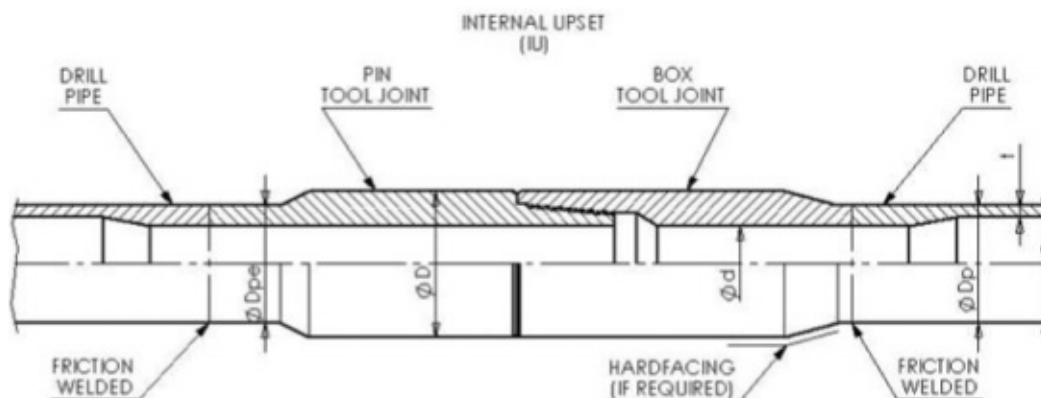


Figure 2: Drill Pipe with Weld-On Tool Joint Assembly⁷

7 Source: Bellino

The tool joint is welded onto the drill pipe during finishing operations; this welding is done by rotational friction. The heat for the weld is created by pressuring one piece of metal against another piece which is rotated at high speed. No filler is used. Tool joints may be welded to the pipe, screwed onto the pipe, or a combination of screwed on and welded. Most commonly, tool joints are permanently welded to the pipe.

A section of drill pipe is called a “joint”; each joint is normally about thirty feet long with an outer diameter (OD) ranging from 2.375 to 6.625 inches. Drill pipe can also be produced to approximately forty feet (Range 3) lengths depending upon customer drilling rig requirements.

Drill pipe is normally produced to conform to American Petroleum Institute (API) specification 5D, 5DP or BSEN ISO 11961. Heavy weight drill pipe and drill collar are normally produced to conform to API specification 7. Other non-API or ISO specifications include NS 1 (originally developed by Shell Oil) and IRP (originally developed by the Canadian Government for sour service applications). Many producers have proprietary grades that meet or exceed API specifications. For example, VAM Drilling offers VAM EIS and VAM Express pipe that feature high-torque connections, while Grant Prideco offers TSS-95 and XD-1 05 proprietary grades for sour service and extreme drilling applications.

The key technical barriers to entry in the drill pipe market are the expertise in chemistry, heat treatment, and manufacturing processes that are required to produce a high-quality product.

Drill Pipe Market Outlook

It is estimated that the global drill pipe market totaled 17.2 million feet and \$647 million in 2009, of which North America was the largest regional market in terms of sales (46%), followed by China (24%), Russia (7%), and South America (9%).

The global drill pipe market is projected to increase at a 13.3% CAGR over the 2009 to 2015 timeframe, reaching \$1.4 billion in 2015.

Drill Pipe Market (\$ Million)

<u>Region</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	\$153	\$161	\$164	\$ 209	\$154	\$157	\$167	\$ 177	\$ 188	\$ 199	\$ 211
North America	\$396	\$439	\$432	\$ 563	\$295	\$425	\$507	\$ 544	\$ 587	\$ 633	\$ 679
South America	\$ 45	\$ 48	\$ 52	\$ 66	\$ 55	\$ 58	\$ 64	\$ 69	\$ 75	\$ 81	\$ 88
Europe	\$ 12	\$ 12	\$ 13	\$ 15	\$ 12	\$ 13	\$ 14	\$ 15	\$ 16	\$ 17	\$ 18
Africa	\$ 14	\$ 18	\$ 20	\$ 25	\$ 20	\$ 24	\$ 26	\$ 28	\$ 31	\$ 34	\$ 37
Mid East	\$ 22	\$ 23	\$ 26	\$ 31	\$ 24	\$ 25	\$ 27	\$ 29	\$ 31	\$ 33	\$ 35
Far East	\$ 30	\$ 31	\$ 31	\$ 37	\$ 32	\$ 34	\$ 37	\$ 40	\$ 44	\$ 47	\$ 51
Russia	\$ 82	\$102	\$121	\$ 165	\$ 45	\$ 69	\$112	\$ 176	\$ 189	\$ 202	\$ 216
Central Asia	\$ 15	\$ 20	\$ 21	\$ 27	\$ 10	\$ 13	\$ 18	\$ 26	\$ 28	\$ 30	\$ 32
Total	\$769	\$855	\$881	\$1,138	\$647	\$818	\$973	\$1,105	\$1,188	\$1,276	\$1,368

Source: Spears and Associates

Although new rig construction generates demand for drill pipe, about 80% of the demand for new drill pipe is associated with replacing existing drill pipe. On average, it is estimated that about 20%-30% of a drill string is replaced each year due to normal wear and tear. However, it is estimated that routine maintenance accounts for only about half of total drill pipe replacement demand, with the rest associated with drill pipe that is lost downhole.

Drill Pipe Market (Million Ft)

<u>Region</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	5.1	5.4	5.5	5.8	5.1	5.2	5.3	5.4	5.4	5.5	5.5
North America	9.9	11.0	10.8	11.8	7.4	10.6	12.1	12.3	12.7	13.0	13.3
South America	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.4
Europe	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Africa	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6
Mid East	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Far East	0.6	0.6	0.6	0.7	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Russia	2.7	3.4	4.0	4.6	1.5	2.3	3.6	5.3	5.4	5.5	5.7
Central Asia	0.5	0.7	0.7	0.8	0.3	0.4	0.6	0.8	0.8	0.8	0.8
Total	20.7	23.1	23.9	26.0	17.2	21.7	24.7	27.1	27.7	28.3	28.9

Source: Spears and Associates

Drilling contractors almost exclusively use drill pipe that meets or exceeds API (American Petroleum Institute) specifications. Globally, 135 facilities can meet the API-5DP specification for drill pipe.

Drill Pipe Market (000 Tons)

<u>Region</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	42	45	45	48	43	44	44	44	45	45	46
North America	82	91	90	98	61	88	100	102	105	108	110
South America	7	8	9	9	9	10	10	10	11	11	11
Europe	2	2	2	2	2	2	2	2	2	2	2
Africa	2	3	3	4	3	4	4	4	4	5	5
Mid East	4	4	4	4	4	4	4	4	4	5	5
Far East	5	5	5	6	5	6	6	6	6	6	7
Russia	23	28	33	38	12	19	30	44	45	46	47
Central Asia	4	6	6	6	3	4	5	6	7	7	7
Total	172	191	198	216	143	180	205	225	230	235	240

Source: Spears and Associates

Pricing Trends and Expectations

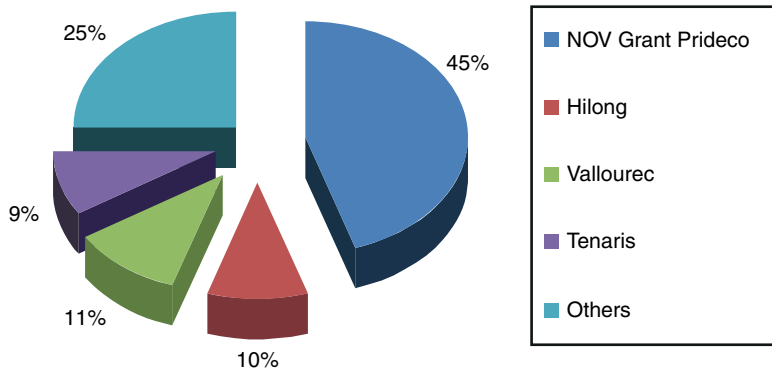
Depending on the grade, drill pipe is currently selling for \$3,000 to \$6,000 a short ton. Over the past year drill pipe prices have rebounded from their 2009 lows and are currently selling near the 2006-2007 level.

Going forward drill pipe prices are expected to rise about 5% per year; forecast increases in drilling activity are expected to be insufficient to lift drill pipe manufacturing capacity utilization high enough to allow drill pipe suppliers an opportunity to push prices significantly higher than 5% per year.

Main Manufacturers

In terms of revenues the global market for drill pipe, drill collars, and heavy-weight drill pipe is estimated to have totaled \$881 million in 2007. NOV Grant Prideco is estimated to have captured 45% of the global market in 2007, followed by Vallourec (11%), the Hilong Group (10%), and Tenaris (9%).

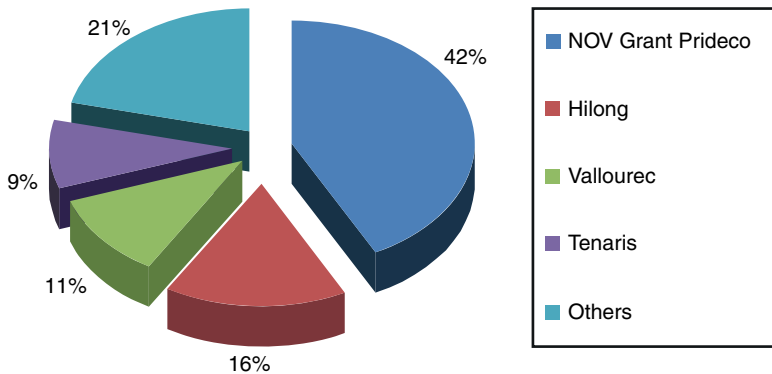
**Global Drill Pipe Market -
2007 Sales**



Source: Spears and Associates

In terms of revenues the global market for drill pipe, drill collars, and heavy-weight drill pipe is estimated to have totaled \$1,138 million in 2008. NOV Grant Prideco is estimated to have captured 42% of the global market in 2008, followed by the Hilong Group (16%), Vallourec (11%), and Tenaris (9%).

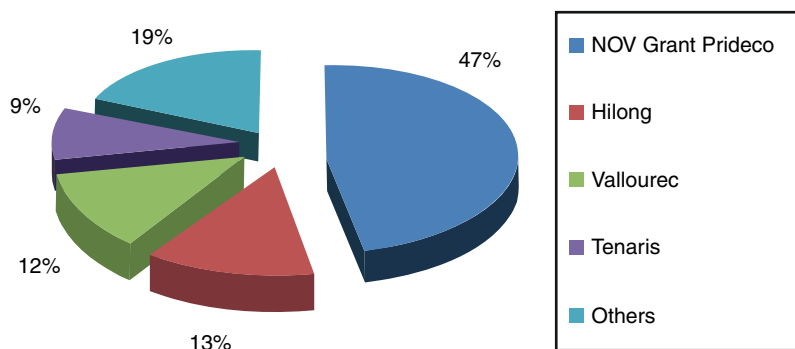
**Global Drill Pipe Market -
2008 Sales**



Source: Spears and Associates

In terms of sales the \$647 million global market for drill pipe, drill collars, and heavy-weight drill pipe in 2009 was dominated by NOV Grant Prideco, the Hilong Group, Vallourec, and Tenaris, which combined to capture an estimated 81% of the global market in 2009.

Global Drill Pipe Market - 2009 Sales



Source: Spears and Associates

The Chinese drill pipe market is led by Hilong; in terms of sales it is estimated to have held about 30% of this market over the 2007 to 2009 timeframe on the strength of its position as the leading drill pipe supplier to both CNPC and Sinopec, the two largest operators in China which are estimated to combine to account for over 90% of the Chinese drill pipe market. Other significant suppliers to the Chinese drill pipe market include Grant Prideco (with approximately 20% of the market), and DP Master and Long Bright (each with an estimated 10%-15% of the market). The balance of the Chinese drill pipe market is believed to be divided among 15-20 other firms.

The North American market is dominated by Grant Prideco, which is estimated to capture 70%-75% of this market, Vallourec (10%-15%), and Tenaris (10%). Other suppliers are estimated to hold around 10% of the North American drill pipe market.

At present access to the North American and European markets by Chinese drill pipe suppliers is restricted because of high tariffs.

Outside of North America, and excluding Russia and China, the drill pipe market is led by Grant Prideco (with an estimated 35%-40% of the market), Tenaris (30%-35%), and Vallourec (20%-25%). Other suppliers, mostly Chinese pipe companies, are estimated to capture 10%- 15% of this market. One non-Chinese drill pipe supplier in the "Other" category in this market is Oil Country Tubular Ltd., of India.

Russian pipe manufacturers are estimated to capture about 30% of the Russian drill pipe market, while importers (primarily Chinese) hold an estimated 70% of the Russian market. Hilong is estimated to be the leading foreign supplier to the Russian market, with an estimated 20% share of the market. In Russia—unlike other markets—aluminum drill pipe has often been used in place of conventional steel drill pipe to drill deviated wells, in part because of its superior fatigue resistant but also due the benefit of its lower weight than conventional steel pipe which was an important factor due to limitations on the hoisting capacity of drilling rigs built during the Soviet era. Very little Russian-made drill pipe tends to be exported.

The following is a profile of the leading global drill pipe suppliers:

Hilong is a diversified oilfield manufacturing supplying drill pipe, drill collar, heavy-weight drill pipe, sour service drilling tools, seamless pipe, OCTG, line pipe, hardbanding material, precision instrument and petroleum exploitation equipments both in China and abroad. It reports the following production capacity: Drill Pipe & Heavy Weight Drill Pipe 60,000 tons/year; Drill Collar & Other Drilling Tools 8,000 tons/year;

Drill Pipe Hardbanding 45,000 tons/year; Internal Coatings for Drill Pipe & OCTG 4,800,000 m/year; Special Coating Materials for OCTG 16,000 tons/year; Line Pipe Anti-corrosion 1,800,000 square m/year; OCTG & Special Steel Billets 80,000 tons/year; Line Pipe 150,000 tons/year; and Special Steel Products 10,000 tons/year.

Grant Prideco is a division of National Oilwell Varco (NOV), a publicly-traded US-based oilfield equipment manufacturer. It has pipe plants in North America, Europe, and Asia and is estimated to have 18 million feet per year of drill pipe production capacity. Grant Prideco imports the green tubes it uses in its North American drill pipe production facility from Voest-Alpine, an Austrian steel mill. In China Grant Prideco has a drill pipe manufacturing plant in Tianjin, and another in Jiangsu that makes drill stem products. NOV has a joint venture with the Huabei Petroleum Administration Bureau to coat drill pipe.

Vallourec & Mannesmann is part of Vallourec Group, a publicly-traded European-based steel company. VAM Drilling provides a complete line of drill string products, including a full range of jointed drill pipes in nominal sizes from 2-3/8" to 6-5/8" and in a wide range of wall thicknesses through its IDPA and OMSCO brands. It also manufactures heavy weight drill pipe, drill collars and develops unique tubular solutions and services to improve drilling efficiency.

Tenaris is a publicly-traded Argentina-based steel company. Its pipe division manufactures a complete line of line pipe and OCTG. Drill pipe is available with outside diameters ranging from 2 3/8" to 5 7/8".

Competitive Environment

In all markets the demand for drill pipe is driven by the construction of new drilling rigs and the replacement of worn-out pipe from existing rigs. Pipe replacement is a much larger component of the market than new rig construction. The replacement of drill pipe, drill collars, and heavy-weight drill pipe is driven by two factors: lost-in-hole (LIH) rates and general life expectancy. Technical obsolescence is not a factor in driving tool replacement for drill pipe.

Since drill pipe is used in "critical service" applications (i.e., harsh, abrasive conditions), in all markets pipe quality is the key factor in vendor selection. While pipe quality is the paramount factor, deliverability, service, and price can also play a role in determining the winning bid.

Several elements enter into the consideration of product quality as it relates to drill pipe: metallurgy, dimensional accuracy, and structural integrity. Of these, metallurgy is the most critical, as it directly impacts the key variables associated with drill pipe performance: strength, fatigue resistance, corrosion resistance, and erosion resistance. As a result, manufacturers try to differentiate themselves by stressing their expertise in chemistry, heat treatment, and manufacturing processes.

The drill pipe market is very capital intensive on both a capital and operating cost basis, and the qualification process to become an approved vendor can be time-consuming and expensive. In addition, the drill pipe manufacturing process requires sophisticated metallurgical skills and experience, with the key technical barriers to entry in the drill pipe market being the expertise in chemistry, heat treatment, and manufacturing processes that are required to produce a high-quality product. As a result, firms entering the drill pipe market must have significant financial and technical resources.

In China demand for drill pipe is highly concentrated: two companies (CNPC and Sinopec) account for approximately 90% of the market for drill pipe. In China the leading drill pipe manufacturer (Hilong) is estimated to hold about 30% of the market; other significant suppliers to the Chinese drill pipe market include Grant Prideco (with approximately 20% of the market), and DP Master and Long Bright (each with an estimated 10%-15% of the market). In all approximately 20 firms are believed to compete in the Chinese drill pipe market. When pipe is needed, the purchasing department of a drilling contractor will solicit bids from multiple sources on the approved vendors list. The selection of a drill pipe supplier is typically made by a contract drilling firm's operations department and procurement department following a competitive bid process.

In terms of demand, the Russian drill pipe market is not as highly concentrated as China. In the Russian market one domestic drill pipe manufacturer (TMK) is estimated to hold about 30% of the market and compete with a number of primarily China-based drill pipe importers. It is primarily the purchasing departments of drilling contractors which determine the source of the drill pipe. When pipe is needed, the purchasing department of a drilling contractor will solicit bids from multiple sources on the approved vendors list. The selection of a drill pipe supplier is typically made by a contract drilling firm's operations department and procurement department following a competitive bid process.

In terms of demand, the drill pipe market outside China and Russia is divided among more than 300 end-users, the largest of which (Nabors Industries) is estimated to account for less than 20% of the overall market. As a result, market penetration requires significantly more marketing and sales resources than is the case in China and Russia. Outside of China and Russia the drill pipe market is dominated by three large multinational suppliers (the Grant Prideco division of NOV, Tenaris, and Vallourec and Mannesman), each with significant financial resources and a long-established track record. In markets outside of China and Russia up to four sets of inventories exist for drill pipe, drill collars, and heavy-weight drill pipe: at the pipe manufacturer, in the pipe distributor's yard, at the drilling rig, and in the tool rental company's stocking facility. Therefore a pipe manufacturer can have several different types of customers—drilling contractors, tool rental companies, supply stores and other independent distributors. However, outside China and Russia the primary customers for drill pipe, drill collars, and heavy-weight drill pipe include both drilling contractors and specialty downhole tool rental companies. It is primarily the purchasing departments of drilling contractors and tool rental companies which determine the source of the drill pipe. When pipe is needed, the purchasing department will solicit bids from multiple sources on the approved vendors list.

Type of Products by Competitors

The leading drill pipe manufacturing firms provide a broad line of drilling tubular products, as shown in the following table:

Suppliers by Type of Product

Suppliers	Drill Pipe				Proprietary Grades	Tool Joints	Drill Collars	Heavy-Weight Drill Pipe
	API Grades							
	E-75	X-95	G-105	S-135				
Grant Prideco	X	X	X	X	X	X	X	X
VAM	X	X	X	X	X	X	X	X
Hilong	X	X	X	X	X	X	X	X
Tenaris	X	X	X	X	X	X	X	X
DP Master	X	X	X	X		X	X	X
TMK OAO	X	X	X	X	X	X		

Source: Spears and Associates

The Fearnley Procter NS-1 standard was originally developed by Shell covers products that have been reviewed and qualified by the Fearnley Procter NS-1 Technical Review Committee consisting of industry experts including users, manufacturers and consultants of drilling and well completion equipment. Manufacturers that have achieved the Fearnley Procter NS-1 certification for drill pipe in the PRC consist of: Hilong, DP Master and PetroMaterials. Several others -Grant Prideco (Jiangsu) Drilling Products Company, Tianjin Grant Prideco TPCO Oilfield Drilling Products Company, Bohai NKK Drill Pipe Company—are currently in the process of obtaining their NS-1 certification.

Purchasing Process

Four sets of inventories exist for drill pipe, drill collars, and heavy-weight drill pipe: at the pipe manufacturer, in the pipe distributor's yard, at the drilling rig, and in the tool rental company's stocking facility. Therefore a pipe manufacturer can have several different types of customers—drilling contractors, tool rental companies, supply stores and other independent distributors. The primary customers for drill pipe, drill collars, and heavy-weight drill pipe are drilling contractors and specialty downhole tool rental companies.

It is primarily the purchasing departments of drilling contractors and tool rental companies which determine the source of the drill pipe. When pipe is needed, the purchasing department will solicit bids from multiple sources on the approved vendors list. Since drill pipe is used in “critical service” applications (i.e., harsh, abrasive conditions), pipe quality is the key factor in vendor selection.

Several elements enter into the consideration of product quality as it relates to drill pipe: metallurgy, dimensional accuracy, and structural integrity. Of these, metallurgy is the most critical, as it directly impacts the key variables associated with drill pipe performance: strength, fatigue resistance, corrosion resistance, and erosion resistance. As a result, manufacturers try to differentiate themselves by stressing their expertise in chemistry, heat treatment, and manufacturing processes.

While pipe quality is the paramount factor, deliverability, service, and price can also play a role in determining the winning bid.

The replacement of drill pipe, drill collars, and heavy-weight drill pipe is driven by two factors: lost-in-hole (LIH) rates and general life expectancy. Technical obsolescence is not a factor in driving tool replacement for drill pipe.

R&D and Innovation Trends

New reservoirs are increasingly found at greater depths, or in high temperature or highly corrosive environments. These situations push the design capabilities of products all across the oilfield supply chain, including drill pipe. In recent years drill pipe R&D has focused on materials research to develop (1) lighter-weight pipe for use in drilling ultra-deep (over 5,000 meter) wells, (2) fatigue-resistant pipe for use in drilling horizontal wells, and (3) corrosion-resistant alloys, extreme temperature, and sour service steels for use in “critical service” applications.

Lighter-weight pipe lowers well cost by decreasing the lifting capacity requirements of a drilling rig’s pipe-hoisting equipment and in some instances decreasing the load-support requirements for deepwater drilling rigs.

Since oil and gas reservoirs typically have greater horizontal dimensions than vertical dimensions by drilling horizontally a wellbore has increased exposure to the hydrocarbon-bearing formation, resulting in greater well productivity and increased reserves recovery. However, horizontal drilling results in increased wear and tear on the drill string. To that end, researchers have developed graphite fiber-reinforced composites to produce a drill pipe which is lightweight with high fatigue resistance. The technology is suitable for short-radius horizontal drilling and has applications in deep water and extended reach drilling.

The industry’s move toward ultra-deep drilling and increased interest in lighter-weight drill pipe has led to increased consideration of non-steel drill pipe. Three types of non-steel materials have been evaluated:

Aluminum drill pipe has several advantages over conventional drill pipe, including lower weight, greater corrosion resistance, greater fatigue resistance, and non-magnetic. However, it costs about twice as much as conventional drill pipe, has low yield strength, and requires greater wall thickness resulting in unacceptable pressure losses.

Composite drill pipe is made by winding carbon fibers over a mandrel while applying an epoxy that encases and seals the fibers. Composite drill pipe is about 3X the cost of conventional drill pipe. Its advantages include: lower weight; higher strength-to-weight ratio; greater corrosion resistance; greater fatigue resistance; and non-magnetic. Its major disadvantage is that it must be thicker than conventional drill pipe in order to achieve the required torsional strength, tensile capacity, and pressure integrity; its greater thickness reduces pipe ID, resulting in unacceptable pressure losses. To-date composite drill pipe has primarily been used in short-radius drilling.

Titanium drill pipe has several advantages over conventional drill pipe: lower weight; higher strength-to-weight ratio; greater corrosion resistance; and greater fatigue resistance. However, it costs 7X-10X more than conventional drill pipe. To-date titanium drill pipe has primarily been used for short-radius drilling.

Along with evaluating non-steel materials, the industry has continued to develop high-strength steels to address the trend toward lighter materials needed for deeper drilling. Most of the research has been to increase the toughness/ductility of high-strength steel grades such as Z-140, V-150, and UD-165 so that they match that of conventional steel grades such as S-135 and G-105. The increased cost of high-strength steels compared to standard drill pipe steel grades is modest.

Hardbanding Market

Hardbanding is a key component in drill pipe manufacturing. Hardbanding increases tool joint life by enabling the drill pipe to resist abrasion from the walls of the borehole. Hardbanding is applied to the tool joint prior to the joint being welded to the pipe body. A hard-metal facing (i.e., hardband) is applied in a band around the outside of the tool joint and on the center wear pad. It is applied under very closely controlled conditions resulting in uniform, wear-resistant surface. It can be flushed, raised, and with a machined finish. This heavy-duty hardmetal application is a closely controlled welding process applied with an automatic hardbanding machine. Hardbanding is generally applied on the box tool joint, on the pin tool joint, on 18 tapered shoulder of box tool joint and on the center upset.

Hardbanding was introduced into the oilfield in the 1930s by Hughes Tool Company. At that time, and for many years afterwards, there was only “tungsten carbide” hardbanding. It consisted of a solid, soft steel wire being welded onto the box tool joint of drill pipe while simultaneously dropping tungsten carbide particles into the molten weld puddle. When it solidified, it left a raised, extremely hard surface above the tool joint that would significantly increase the life of the drill pipe. However, tungsten carbide hardbanding causes wear on casing, increasing the risk of blowouts.

Starting in about 2000, casing-friendly hardbandings, rather than tungsten carbide, have become the norm. “Casing friendly hardbanding” tend to protect the casing more than the drill string. They exhibit a low coefficient of friction that creates less friction during contact with other steel surfaces, resulting in less heat and less wear. One of the first successful materials to come out was a high chrome composition that performed well in the casing protection phase. However, it had a short open-hole wear life and consequently wore the drill pipe tool joints below minimum dimensions within a short time frame. Over the last 15 years, many new hardbanding wires have been developed, but only a select few actually protect the drill pipe, the casing, the blowout preventors and the marine riser pipe at the same time. Most protect one area or another, but not at the same time. Other benefits can be equally important such as significantly reducing the drag and torque created by the drill string while drilling and tripping in the hole.

Almost all competitive hardbanding products in the industry are applied using a MIG welding process, typically at a pipe inspection facility. Mobile units may also be used that can travel to, or near a drilling site. An “applicator” is a modified MIG welding apparatus configured to position and weld hardbanding onto a tool-joint. This is an established process that has worked well for many years. However, with cost increases related to transporting pipe to and from a facility, the cost to transport a unit to, or near a drilling site, potential downtime and the remote nature of many drilling operations, a cost effective alternative has been developed that allows for by-hand installation and removal of a hardfaced sleeve, while on the rig floor.

The most widely-used “casing friendly” drill pipe hard facing products include: Arncos 100XT, 200XT, 300XT and WearSleeve (from Arncos Technology); TCS8000 and TCS Titanium (from NOV Tuboscope); Armacor M (from Liquidmetal Technologies); and SmoothX and Super SmoothX (from VAM Drilling). Tungsten carbide hardbanding products are available from multiple sources.

The global hardbanding market is estimated to have totaled almost \$32 million in 2009. On a global basis the primary independent suppliers of hardbanding materials are Arncos Technology Trust, Postle Hardbanding Solutions, and Liquidmetal Technologies. In addition, drill pipe manufacturers that also supply hardbanding products include Hilong, NOV Grant Prideco (through its Tuboscope division), and VAM Drilling. The major participants in the Chinese hardbanding market include Hilong and Arncos.

Hardbanding Market (\$ Million)

<u>Region</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	\$ 8	\$ 8	\$ 8	\$ 9	\$ 8	\$ 8	\$ 8	\$ 9	\$ 9	\$10	\$11
North America	\$20	\$22	\$22	\$24	\$15	\$21	\$25	\$27	\$29	\$32	\$34
South America	\$ 2	\$ 2	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 4	\$ 4	\$ 4
Europe	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Africa	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 2	\$ 2	\$ 2
Mid East	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 2	\$ 2	\$ 2
Far East	\$ 1	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 3
Russia	\$ 4	\$ 5	\$ 6	\$ 7	\$ 2	\$ 3	\$ 6	\$ 9	\$ 9	\$10	\$11
Central Asia	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 2
Total	\$38	\$43	\$44	\$48	\$32	\$41	\$49	\$55	\$59	\$64	\$68

Source: Spears and Associates

The Fearnley Procter NS-1 standard was originally developed by Shell covers products that have been reviewed and qualified by the Fearnley Procter NS-1 Technical Review Committee consisting of industry experts including users, manufacturers and consultants of drilling and well completion equipment. Those manufacturers that have achieved the Fearnley Procter NS-1 certification for hardbanding products include: Hilong, through its subsidiary Shanghai Boteng; Arnco; NOV; Postle; and Pinnacle Oilfield Services.

GLOBAL OCTG AND LINE PIPE COATING MATERIALS AND SERVICES MARKET

Line Pipe Coating Materials and Services Market

Description

Steel pipelines are used to transport of natural gas, crude oil, water, petrochemical and petroleum products at high pressures over long distances. Line pipe coating involves the coating of onshore and offshore steel pipes with protective layers to prevent the corrosion both externally and internally from the surrounding substrate. External pipe coating also provides mechanical protection for the underlying steel pipe. Given that the pipes are generally bare steel, coating it with different layers of plastic and concrete prevents seawater or groundwater from attacking the steel pipe, prolonging its lifetime. Coating of pipes represents only 5 – 6 per cent of the total pipeline cost in the overall scheme of design, manufacturing and installation of a pipeline project, but plays a very critical role. Aside from providing corrosion and mechanical protection, the pipe coating must be flexible enough to bend with the pipe and applied evenly to prevent any pockets where corrosion may accelerate.

Types of Coating Materials and Services

Five main coating systems are used for onshore pipelines: three layer polyethylene (3LPE), three layer polypropylene (3LPP), fusion bonded epoxy (FBE or Dual FBE), coal tar enamel (CTE), asphalt enamel and polyurethane (PUR). The different systems are specified by pipeline owners and engineering firms depending on short- and long-term cost, captive usage, regional availability of the coating material, control on handling, transportation and installation of pipelines, and technical reasons.

Three Layer Polyethylene (3LPE) coating is dominant worldwide—with 50 per cent market share—for onshore pipelines, with the exception of North America. The trend is increasing with a greater number of projects coated with 3LPE in China, India and the Middle East. The increased acceptance of 3LPE is due to its broad operating temperature range (from -45°C to + 85°C) and ability to withstand very rough handling and installation practices without damage to the coating. 3LPE systems consist of an epoxy primer, a grafted copolymer medium density (MDPE) adhesive to bond the epoxy primer with a high density (HDPE) topcoat. HDPE based systems offer excellent mechanical protection and long-term aging performance.

Three Layer Polypropylene (3LPP) systems are recognized as excellent systems for offshore projects with elevated operating temperature (0°C to +140°C) and extreme mechanical stress on the pipes. Projects in the North Sea, Africa, Gulf of Mexico and Arabian regions have set new standards for 3LPP coatings, which provide access to deepwater gas and oil fields. 3LPP system consists of an epoxy primer, a grafted copolymer PP adhesive to bond the epoxy primer with a PP topcoat. Polypropylene (PP) systems with up to seven layers are increasingly gaining ground for technically challenging deep sea projects, with very high operating temperature, where several functional PP layers are used for thermal insulation foams. These foams, apart from insulation properties, should have high compressive strength so that they do not collapse under high external pressure in deep sea environment. PP based systems offer excellent mechanical protection and long-term aging performance.

FBE is dominant in North America, United Kingdom and a few other countries but the trend is declining in favor of 3LPE and PP Systems. Some pipeline owners have graduated from coal tar coating to Dual FBE as the cost has become quite competitive after increases in coal tar prices.

Coal tar and asphalt enamel are both still used in some countries. Both systems are declining and suffer from health and environmental concerns.

Polyurethane (PUR) systems are mostly used for pipeline rehabilitation projects or girth weld coating. However, PUR systems suffer from health concerns.

Offshore, concrete weight coating (CWC) provides pipe stability and superior mechanical protection and is used for weight in negative buoyancy applications.

Manufacturing and Coating Processes

External line pipe coating can be applied (1) at the pipe manufacturing plant, (2) at mobile coating yards located close to the pipeline right-of-way, or (3) along the pipeline right-of-way (known as line travel coating or over-the-ditch coating). Each method has advantages and disadvantages; the process chosen for use will depend on several factors including cost, timeliness, and type of coating.

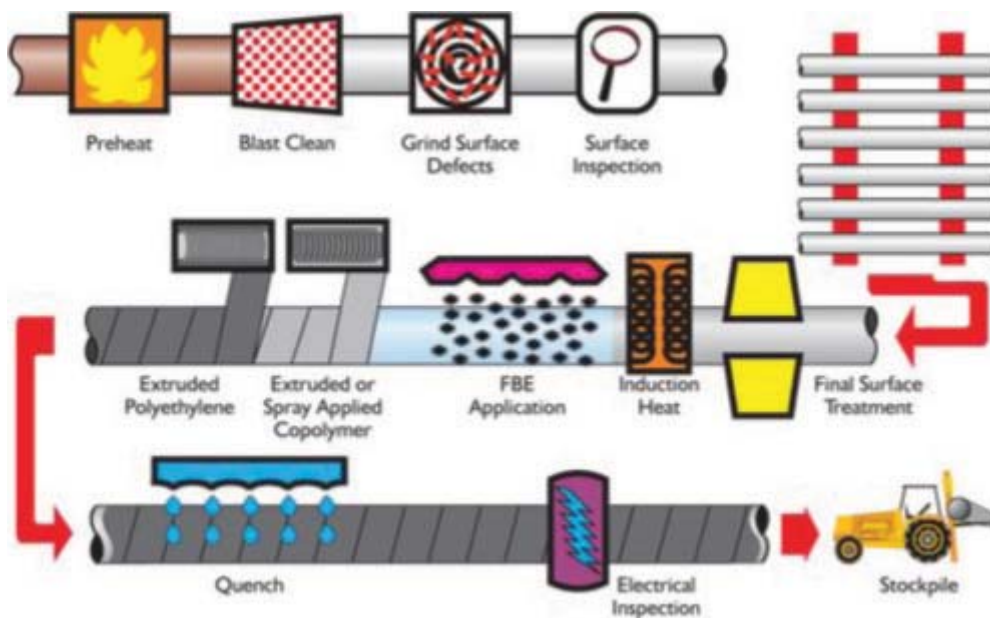
Plant-applied pipe coating generally provides the highest coating quality as well as provides the broadest range of type of coating to be used. On the other hand it requires hauling coated pipe over long distances, resulting in frequent loading and unloading operations which may lead to various kinds of damage to the pipe coating that could require expensive repair and/or risk the loss of coating integrity.

A mobile coating yard can be quickly assembled and disassembled, often in connection with a double or triple jointing yard to enable coating to be applied near the pipeline right-of-way. Mobile yard coating of double or triple jointed pipe also reduces the number of field joints to be protected. As a result, mobile coating yards generally have a lower risk of damage to the coating once it is applied than does plant-applied coating. However, because it is usually uneconomic to outfit mobile coating yards with expensive extrusion equipment, not all types of coatings can be applied at a mobile coating yard. As a rule, a mobile coating yard is most suitable for hot tape coatings, liquid coatings, cold tape coatings, and hot enamel coatings.

Line travel coating generally provides the lowest risk of damage to the coating once applied, but generally does not equal the quality of plant coated pipe. Also, not all types of coatings can be applied in a line travel coating environment. As a rule, line travel coating is most suitable for hot tape coatings, liquid coatings, cold tape coatings, and hot enamel coatings.

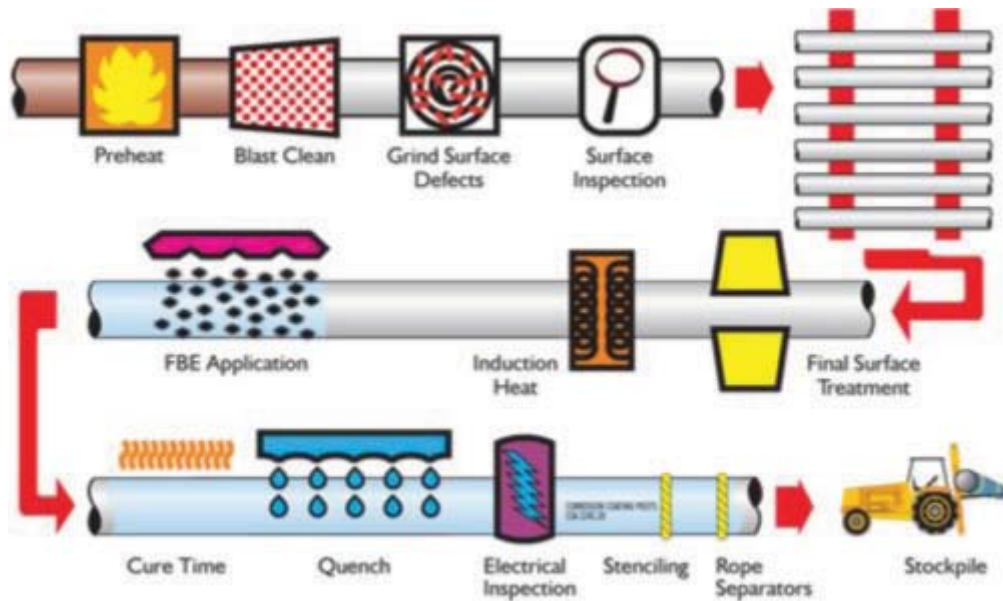
External plant-applied coating processes

3LPE/3LPP product application process:



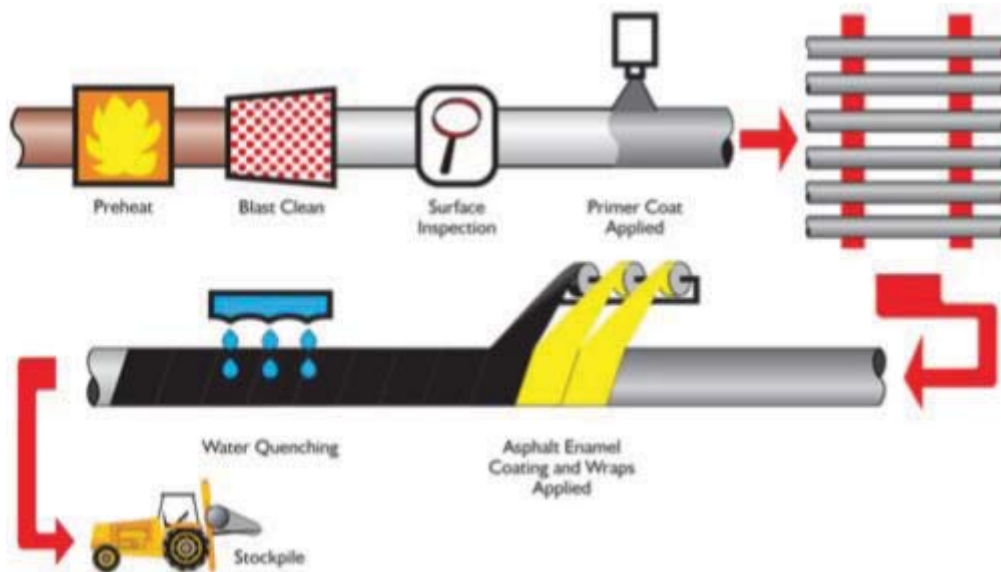
Source: BrederoShaw

FBE product application process:



Source: BrederoShaw

Asphalt enamel product application process:



Source: BrederoShaw

Three-layer hot tape coating is most often used at mobile coating yards and for line travel coating for pipe in excess of 36 inches in diameter. Hot applied polyethylene tape has been developed in order to allow application of three-layer coating in semi-stationary plant conditions without the use of expensive extruders. A three-layer system consists of a heat activated primer, a layer of heat sensitive elastomer coating, and an outer polyolefin layer. The layers thermally fuse and bond together during application. These ready-to-use tapes are delivered in rolls.

Internal line pipe coating is a multi-step process generally performed at the plant. It typically consists of:

- First internal pipe heating

- Internal pipe surface degreasing
- Second internal pipe heating
- First internal pipe surface blast cleaning
- Internal surface quality examination
- Second internal pipe surface blast cleaning
- Internal surface blowout
- Internal surface preparation quality inspection
- Pipe coating application (in coating chamber)
- Internal coating pre-curing
- Pipe induction heating
- Pipe coating curing in the full-polymerization chamber
- Internal flow coating quality inspection (visual)
- Pipe marking and storage

Market Outlook

Due to massive growth in pipeline construction activity, driven by a global re-mapping of the energy demand and supply, the worldwide petroleum industry line pipe coating market has increased from over 1,050 million square feet in 2005 to approximately 1,975 million square feet in 2009, for an annual average growth rate of 17.0%. Based on the outlook for pipeline construction, worldwide petroleum industry line pipe coating demand is projected to exceed 2,600 million square feet by 2015.

Line Pipe Coating Demand (Mil Sq. Ft.)

<u>Category</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
China	141	246	312	408	412	325	334	344	355	365	376
North America	184	171	184	220	234	259	266	274	283	291	300
South America	72	36	32	79	130	66	68	70	72	74	76
Europe	24	13	49	30	12	30	31	32	33	34	35
Africa	5	60	35	107	172	234	241	248	256	264	271
Mid East	54	132	213	366	482	729	751	773	797	820	845
Asia Pacific	330	574	728	613	412	325	334	344	355	365	376
Russia	163	91	339	209	81	206	212	218	225	231	238
Central Asia	82	46	170	105	41	103	106	109	112	116	119
Total	1,055	1,370	2,063	2,137	1,977	2,275	2,343	2,414	2,486	2,561	2,637

Source: Spears and Associates

Macro Drivers of Line Pipe Materials and Coating Demand

According to *Pipeline and Gas Technology*⁸, approximately 26,900 miles of oil and gas transmission pipeline is expected to be installed worldwide in 2010, up 3.4% from 2009. We project that oil and gas pipeline construction will increase at a 3% CAGR over the 2010 to 2015 timeframe, to a total of more than 31,000 miles of newly-installed pipeline in 2015.

Miles of Transmission Line Installed

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
North America	5,557	5,168	5,550	6,625	7,050	7,800	8,034	8,275	8,523	8,779	9,042
South America	2,866	1,424	1,289	3,152	5,185	2,608	2,686	2,766	2,849	2,935	3,023
Europe	2,048	1,148	4,262	2,627	1,022	2,583	2,661	2,740	2,823	2,907	2,995
Africa	42	516	301	919	1,483	2,018	2,078	2,140	2,205	2,271	2,339
Mid East	462	1,139	1,838	3,152	4,156	6,281	6,469	6,664	6,863	7,069	7,281
Asia Pacific	4,063	7,070	8,960	8,800	7,104	5,596	5,764	5,937	6,115	6,298	6,487
Total	15,039	16,465	22,200	25,275	26,000	26,885	27,692	28,522	29,378	30,259	31,167

Sources: Pipeline and Gas Journal; Spears and Associates

The increase in global pipeline construction is driven by the increasing demand for energy worldwide. The US Energy Information Administration (EIA) forecast world marketed energy consumption to increase by 44% through 2030. Energy demand growth will be strongest among non-OECD countries, led by China and India, where combined energy use will nearly double over the projection period to 28% of world energy consumption.

A few major planned or proposed pipeline construction projects are profiled below:

The 1,252 km, 48-in. OD Gasoducto del Noreste pipeline will deliver 3.2 bcf of Bolivian gas to Argentina as early as 2015.

PetroChina expects to bring its second West-East Pipeline into service by early 2011; it is part of the larger Asian Gas Pipeline, running from Turkmenistan to eastern China.

The first stage of the 4,700-km East-Siberia Pacific Ocean oil pipeline was inaugurated in December 2009. The second stage involves construction of a pipeline link between Skovorodino and Kozmino by 2012.

Plans call for a 771-km crude pipeline between Maday Island in western Myanmar and China's southwestern Yunnan province. A companion natural gas pipeline from Myanmar to southwestern China is scheduled to begin operation in 2012.

The Nord Stream pipeline is scheduled to start operations in fourth-quarter 2011. The project includes building a second, parallel pipeline planned to come on stream in 2012.

Gazprom and Eni agreed to build the 560-mile South Stream gas pipeline under the Black Sea and through Bulgaria. Participants plan to deliver first gas by 2013.

Stage 1 of the proposed 56-in. Nabucco pipeline calls for 2,000 km of pipe between Turkey, and Austria to be built by 2014. Second-stage construction would begin in 2012 and build eastward from Ankara to the Iranian and Georgian borders, bringing total pipeline length to 3,300 km.

Russia is building a multiline gas transmission system connecting the Yamal Peninsula and central Russia to deliver gas from Bovanenkovo field with production starting in 2011. Total pipeline length will exceed 2,400 km.

8 January/February 2010, "Worldwide Construction Forecast"

Iran and Pakistan plan a project that would transport gas from the South Pars field in the Persian Gulf through 1,850 km of 56-in. OD line. Iran's IGAT IX pipeline, slated for 2014 completion, will move gas 1,863 km from Asalouyeh to the Turkish border.

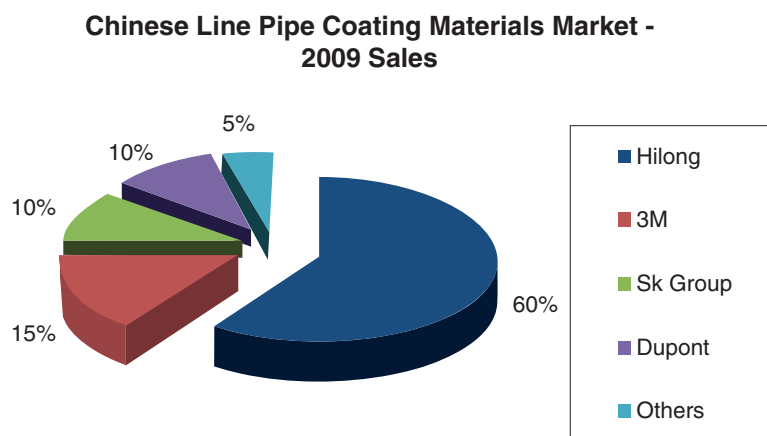
The proposed 4,300 km Trans-Sahara gas pipeline would transport gas from the Niger Delta into Algeria and Europe. No date has yet been given for the start of work.

Algeria plans to build a 585-km natural gas pipeline from Hassi R'mel to an LNG terminal at Skikda; pipeline completion is expected in 2011. The Galsi natural gas pipeline will deliver Algerian gas to Italy via Sardinia; it is expected to begin operation by 2012-13.

Line Pipe Coating Material Suppliers

On a global basis the leading suppliers to the estimated US\$625 million steel line pipe coating materials market (2010) include 3M, DuPont, Akzo Nobel, Socotherm, Borealis/Borouge, and LyondellBasell. The global market is dominated by 3M which is estimated to do over US\$800 million per year in pipe coatings, across all industries (steel line pipe, refining/petrochemical, water, etc.)⁹.

Hilong is the leading supplier to the Chinese steel line pipe coating materials market, capturing approximately 30%-40% of the Chinese market in 2007, 50% of the Chinese market in 2008, and 60% of the Chinese market in 2009. Other significant players in the Chinese line pipe coating materials market include 3M (with an estimated 15% of the 2009 market), SK Group (10%), and Dupont (10%).



Fusion Bonded Epoxy (FPE)

Fusion bonded epoxy coating (FBE) is a powder-based coating used to coat and protect steel pipeline, piping connections, and valves. It is comprised of four separate components: resin, hardener, fillers, and color pigments. Resin and hardener comprise the adhesive element of FBE, and are often referred to as the "binder." The epoxy resin is comprised of resin molecules that each carry one oxygen atom and two carbon atoms, which are highly reactive. When mixed with hardener, the resin and hardener react and adhere to the substrate. The hardener itself is what determines many qualities of the final fusion bonded epoxy mix, such as flexibility and chemical resistance. The addition of fillers and pigment can alter properties such as hardness, thickness, permeability, and color. FBE is made by mixing and blending all four components; the resulting dry mixture enters an extruder, where the mixture is compressed, heated, and melted until semi-liquid. The mixture is then extruded and passed between rollers until it forms a solid sheet. The sheet is then cut into tiny pieces, which are then ground up into powder. The final powder mixture is then packaged and sold. The leading FBE suppliers include Hilong, 3M (the Scotchkote brand of FBE powder coatings), DuPont (NapGard), Akzo Nobel (Resicoat), Socotherm (Powderkote), and SK Group.

⁹ Source: Rodman Publishing

3M (USA) has been the primary global supplier of fusion bonded epoxy coatings for pipelines since 1960, and its Scotchkote materials have been used to coat more pipelines worldwide than any other fusion bonded epoxy product.

Three Layer Polyethylene (3LPE)

3LPE coating is dominant worldwide for onshore pipelines, with the exception of North America. 3LPE systems consist of an epoxy primer, a grafted copolymer medium density (MDPE) adhesive to bond the epoxy primer with a high density (HDPE) topcoat. HDPE based systems offer excellent mechanical protection and long-term aging performance. The leading 3LPE suppliers include Hilong, Borealis/Borouge (the Borcoat brand of products), Socotherm (Plastikote), and LyondellBasell.

Three Layer Polypropylene (3LPP)

3LPP systems are recognized as excellent systems for offshore projects with elevated operating temperature (0°C to +140°C) and extreme mechanical stress on the pipes. 3LPP system consists of an epoxy primer, a grafted copolymer PP adhesive to bond the epoxy primer with a PP topcoat. PP based systems offer excellent mechanical protection and long-term aging performance. The leading 3LPP suppliers include Hilong, Borealis/Borouge (the Borcoat brand of products), and Socotherm (Plastikote).

Coal Tar Enamel

Coal tar and asphalt enamel are both still used in some countries. Both systems are declining and suffer from health and environmental concerns. In addition, some pipeline owners have moved from coal tar coating to Dual FBE as the cost has become quite competitive after increases in coal tar prices. The leading coal tar enamel suppliers include Carboline (USA).

Competitive Environment

In all markets the demand for line pipe coating materials is driven by the construction of new pipe lines and the replacement of existing line pipe. New pipeline construction is a much larger component of the market for line pipe coating materials than the replacement of existing line.

Since coating material is used in “critical service” applications (i.e., harsh, abrasive conditions), in all markets material quality is the key factor in vendor selection. While material quality is the paramount factor, deliverability, service, and price can also play a role in determining the winning bid.

Several factors enter into the consideration of which type of coating material (three layer polyethylene (3LPE), three layer polypropylene (3LPP), fusion bonded epoxy (FBE or Dual FBE), coal tar enamel (CTE), asphalt enamel and polyurethane (PUR)) is most appropriate for the job at hand: short- and long-term cost, captive usage, regional availability of the coating material, control or handling, transportation and installation of pipelines, and technical reasons. The pipeline operating company and the engineering firm managing the pipeline construction project determine the type of coating material to be used.

Pipeline companies are the primary customer for line pipe coating services, although the construction of a new pipeline is typically carried out by an engineering/construction firm working for the pipeline company and who generally selects the pipe coating materials firm after a competitive bid process involving companies on an approved vendor list. Since most line pipe coating is applied at the pipe plant, proximity to the pipe plant is often a key consideration in line pipe coating materials vendor selection. Other important factors include past experience, quality, safety, and price.

A significant barrier to penetrating the line pipe coating materials market is the time and cost required to establish a proven track record necessary for general market acceptance. Products designed to address the critical service segment of the market will require considerable technical expertise and significant research and development budgets. In addition, the coating materials manufacturing process requires expertise in chemistry,

heat treatment, and manufacturing processes that are required to produce a high-quality product. As a result, firms entering the line pipe coating materials market must have significant financial and technical resources.

In China demand for line pipe coating materials is highly concentrated. Two companies (CNPC and Sinopec) control both the construction and operation of almost all of the oil and gas transmission pipelines in China. In China the leading line pipe coating materials manufacturer (Hilong) is estimated to hold about 60% of the 2009 market. Other significant players in the Chinese line pipe coating materials market include 3M (with an estimated 15% of the market), SK Group (10%), and Dupont (10%). These line pipe coating materials companies have developed close working relationships with coating applicators, pipeline engineering and construction firms, and pipeline operators in China through training and certification programs.

In terms of demand, the line pipe coating materials market outside China is divided among several hundred pipeline companies, the largest of which is estimated to account for less than 5% of the overall market. As a result, market penetration requires significantly more marketing and sales resources than is the case in China. Outside of China the line pipe coating materials market is supplied by a number of large, diversified multinational firms with significant technical expertise, proprietary technology, extensive manufacturing networks, and proven records of performance. Most of these companies are focused on addressing critical service applications (either due to operating conditions or construction constraints) requiring innovative technical solutions. Many of these multinational line pipe coating materials companies have developed close working relationships with coating applicators, pipeline engineering and construction firms, and pipeline operators in many countries through training and certification programs. In addition, local or regional coating materials vendors supplying low-cost coating products such as FBE will also compete in non-critical service applications.

R&D and Innovation Trends

The coating systems for pipelines have evolved over the years through Coal Tar enamel coating, Asphalt Enamel coating, PE Sinter coating, 2LPE coating, PU coating, FBE coating, 3LPE and 3LPP coatings and is progressing further. However, in all the new innovations, the key objectives have been:

- To improve the toughness of the coating (impact, abrasion etc),
- To increase the operating temperature range (both on lower and higher side).
- To secure long term properties (Cathodic disbondment, Peel strength, weathering, UV and heat resistance, environmental stress crack resistance)

Additional challenges for pipeline engineers are the increasingly aggressive contents and the harsher operating conditions for oil and gas. There are still challenges that face the line pipe coating industry due to the many unique applications, such as cold climates and deep water environments.

Several new line pipe coating products are under development including a PE top coat with very high resistance to slow crack growth, machine applied PE for field joint coatings, PP weight coating and PP injection molded systems for field joint coating.

OCTG Coating Materials and Services Market

Description

OCTG coating involves the coating of casing, tubing, and drill pipe in order to prevent corrosion and wear and to enhance equipment performance. Specialized coating service firms are used to perform OCTG pipe coating operations; in addition, the larger OCTG coating service firms also provide pipe inspection services.

Tuboscope invented the internal tubular coating process in the 1930s; however, drill pipe coating only began in the 1950s. While tubing and drill pipe are routinely coated because they are continually in contact with harsh

or abrasive fluids, casing is less likely to be coated as it less likely to be employed in environments where it may need protection from wear or corrosion.

The original drill-pipe coatings were liquid films that were sprayed on, then left to dry. Powder coatings were introduced in the 1970s to cut the use of solvents and emissions.

Coating Processes

The first step in the drill pipe coating process is that the pipe is thermally cleaned and the internal surface is blasted with grit for a good anchor pattern preparatory to coating. A two stage application of phenolic/epoxy liquid coatings is sprayed on to the internal surface of the drill pipe in a controlled manner and thermal cured at each stage. This ensures uniform coating thickness and quality throughout the length of the drill pipe.

A liquid-applied coating usually contains ceramic material loaded in an epoxy binder resin. After being sprayed though the pipe, the pipe goes through a conveyORIZED oven for curing.

In a powder coating operation the drill pipe is first thermally cleansed at 750° F for up to 12 hours. A primer is then applied to the bare steel, the pipe reheated and powder blown through it. After the powder melts, the pipe goes through a conveyORIZED oven for curing.

A similar process used to coat casing and tubing.

In oilfield operations, the drill-pipe exterior generally remains uncoated except for rust preventive varnish since routine contact between the drill pipe and the wellbore can quickly strip away any exterior coating.

Market Outlook

The OCTG coating services market is tied to drilling activity, especially deep drilling, and demand for higher end tubulars. The coating industry is driven by overall drilling activity, a shift towards deeper drilling, replacement of aging tubulars, and a growing focus on safety.

North America is the most important market for OCTG coating materials and services, accounting for 55%-60% of the global market, followed by China (11%), and Russia (12%). In all, we estimate that the global market for OCTG materials and coating services totaled \$188 million¹⁰ in 2009. Based on the outlook for future drilling activity, and assuming OCTG materials and coating prices rise 4%-6% per year going forward, the worldwide OCTG materials and coating services market is projected to reach \$387 million in 2015, for a CAGR of 12.8%.

OCTG Coating Materials and Services Market (\$ Million)

Region	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
China	31	32	35	40	22	22	38	41	43	46	48
North America	123	142	147	169	105	152	181	194	210	226	243
South America	10	11	13	15	14	15	17	18	19	21	22
Europe	3	3	3	4	3	3	4	4	4	4	5
Africa	3	5	5	6	5	6	7	7	8	9	10
Mid East	5	5	6	7	6	6	7	7	8	8	9
Far East	6	7	7	9	8	8	9	10	11	12	13
Russia	11	15	18	22	22	23	26	28	29	32	34
Central Asia	2	3	3	3	3	3	3	4	4	4	4
Total	194	223	238	273	188	239	291	312	336	361	387

Source: Spears and Associates

¹⁰ Includes the value of both coating materials and coating services

OCTG Market Penetration

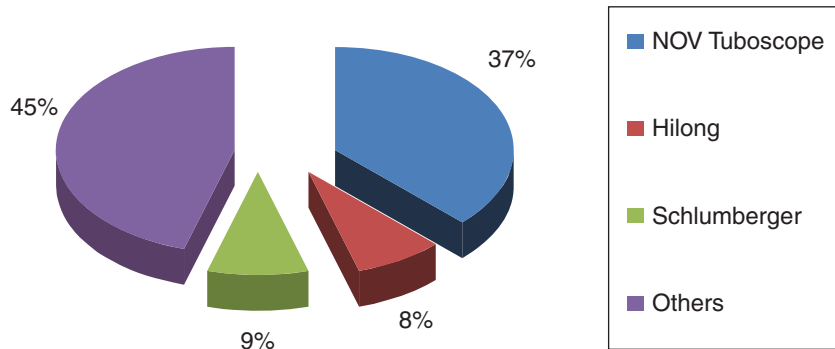
It is estimated that currently about 90% of all tubing and drill pipe is coated; as a result, it would appear that further penetration of the OCTG market by coating applicators is limited.

Most drill pipe owners (drilling contractors and rental yards) routinely coat their drill pipe in order to improve its performance and extend its useful life. The roughness of the steel within the drill pipe inhibits the flow of the drilling fluid due to friction. At the same time, uncoated pipe deteriorates from corrosion pitting, especially around the critical box and pin connections. As a result, by internally coating drill pipe, mud-pump mud-pump flow rates can be increased by as much as 15% and mud pump pressure can be better controlled, while at the same time significantly increasing the useful life of drill pipe. The cost of coating is typically about 8%-10% of the cost of the drill pipe, however coatings have been shown to increase drill pipes life by a factor of 2X while at the same time reducing mud pump horsepower requirements by 10%-25%.

OCTG Materials and Coating Service Firms

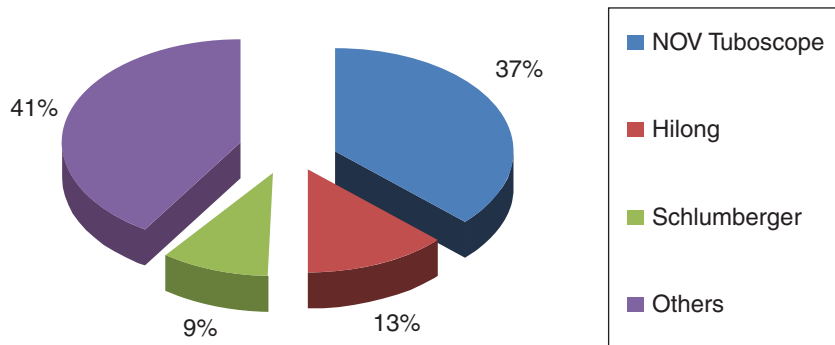
In terms of revenues the global market for OCTG coating materials and services is estimated to have totaled \$238 million in 2007. NOV Tuboscope is estimated to have captured 37% of the global market in 2007, followed by the Hilong Group (8%) and Schlumberger (9%). See the following chart.

Global OCTG Coating Materials and Services Market - 2007 Sales



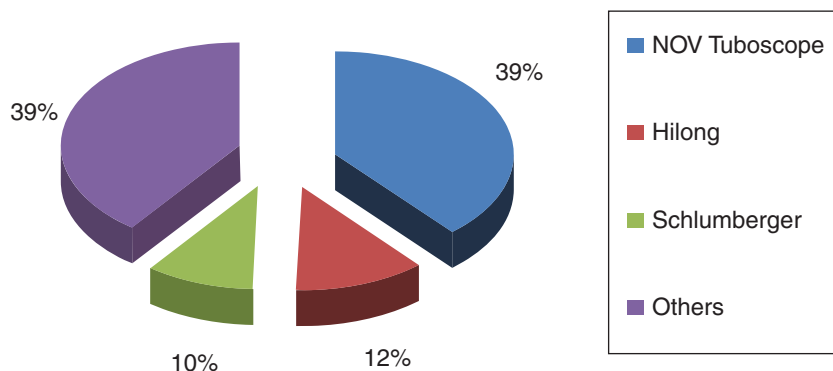
In terms of revenues the global market for OCTG coating materials and services is estimated to have totaled \$273 million in 2008. NOV Tuboscope is estimated to have captured 37% of the global market in 2008, followed by the Hilong Group (13%) and Schlumberger (9%). See the following chart.

Global OCTG Coating Materials and Services Market - 2008 Sales



In terms of revenues the global market for OCTG coating materials and services is estimated to have totaled \$188 million in 2009. NOV Tuboscope is estimated to have captured 39% of the global market in 2009, followed by the Hilong Group (12%) and Schlumberger (10%). See the following chart.

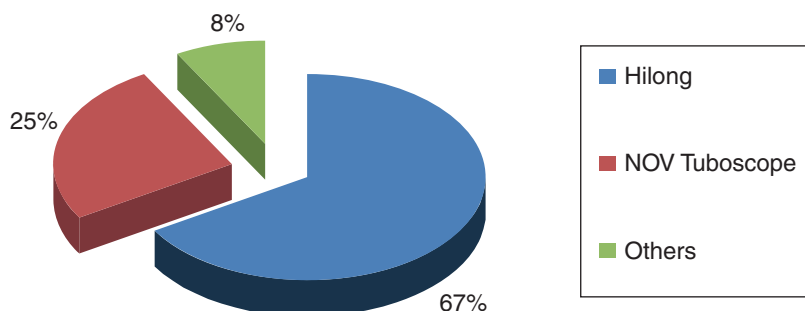
Global OCTG Coating Materials and Services Market - 2009 Sales



Source: Spears and Associates

Hilong is the leading Chinese OCTG materials and coating service firm, capturing approximately 60% of the Chinese market in 2007, two-thirds of the Chinese market in 2008 and two-thirds of the Chinese market in 2009. The second-largest vendor in the Chinese OCTG materials and services market is NOV Tuboscope, with an estimated 25% of the Chinese market.

Chinese OCTG Coating Materials and Services Market - 2009 Sales



The North American market is dominated by NOV Tuboscope, with 30%-40% of the market, followed by Schlumberger (10%-15%), Shawcor (5%-10%), and RPC (5%-10%). Other suppliers are estimated to hold 40%-50% of the North American OCTG coating market.

Outside of North America, and excluding Russia and China, the OCTG materials and coating services market is led by NOV Tuboscope (with an estimated 60%-65% of the market), Schlumberger (15%-20%), and Shawcor (10%-15%). Other suppliers are estimated to capture 10%-15% of this market.

Hilong is reported to have an annual coating capacity of over 5 million meters per year (drill pipe coating 2.4 million meters; tubing coating 2.26 million meters; and casing coating 370 thousand meters). The group has become the largest company alliance in coating business in China, with a approximately two-thirds of the Chinese market.

The Tuboscope division of National Oilwell Varco (NOV) is the largest OCTG coating service firm outside China. In China NOV has a joint venture with the Huabei Petroleum Administration Bureau to coat drill pipe.

HHTCC, a Joint Venture between Tuboscope and HYYJ, set up its second coating line on the premises of DP Master which went into operation in Sept 2007 with a coating capacity of 12,000 joints per month.

Schlumberger is a diversified oilfield service firm with operations around the world. Its Smith Services division is primarily involved in the inspection and coating of drill pipe.

OCTG Coating Material Suppliers

The leading OCTG coating material suppliers include Hilong, NOV Tuboscope, and Schlumberger (Smith International).

Hilong produces the TC series of coating and anti-corrosion materials for use on drill pipe, tubing, casing, and line pipe.

Key OCTG coatings available from NOV Tuboscope include DPC, TK-34 and TK-34XT liquid coatings and TK-34P, TK-34XT, TK-236 and TK-216 powder coatings. In all, Tuboscope has around 40 internal plastic coatings to protect drill pipe and line pipe specifically. The technology uses phenolics, epoxies, urethanes, novolacs and new thermoplastics designed to address the operating needs of specific oilfield environments.

Schlumberger (Smith International) commercializes Sub-One Technology's advanced InnerArmor coating technology for OCTG applications. The joint venture, Smith InnerArmor Technologies, has the exclusive license to supply a full range of OCTG coatings on a global basis. Sub-One Technology is a privately held company backed by Chevron, General Electric, Nomura, and Advanced Technology Ventures.

Competitive Environment

In all markets the OCTG materials and coating services market is tied to drilling activity, especially deep drilling, and demand for higher end tubulars. The coating industry is driven by overall drilling activity, a shift towards deeper drilling, replacement of aging tubulars, and a growing focus on safety.

The most important factors in vendor selection are local market presence, quality of service, technology, and price. Over time, oil and gas companies (which own casing and tubing) and drilling contractors (who purchase drill pipe) are increasingly requiring sophisticated tubular tracking and management skills from their OCTG coating and inspections suppliers as they seek to maximize the useful life of the OCTG assets.

Since proximity to the oil field can be a key factor in the OCTG coating vendor selection process, OCTG coating companies provide services from regional operating bases located in major oilfield equipment supply centers.

The OCTG coating materials and services industry is a mature market served by well-established vendors. Most firms that provide coating services also provide inspection services and some will also provide tubular maintenance services. A significant barrier to penetrating the OCTG coating materials and services market is the time and cost required to establish a proven track record necessary for general market acceptance with both pipe mills and their customers (oil and gas companies and drilling contractors). In addition, the cost of and operating expertise associated with inspection technology acts an entry barrier to the inspection segment of the OCTG market.

In China demand for OCTG coating materials and services is highly concentrated. Two companies (CNPC and Sinopec) are estimated to account for about 90% of the market for OCTG in China. Based on 2009 sales, Hilong is the leading Chinese OCTG materials and coating service firm, capturing approximately two-thirds of the Chinese market, followed by NOV Tuboscope with an estimated 25% of the Chinese market. In China NOV Tuboscope has a joint venture with the Huabei Petroleum Administration Bureau to coat drill pipe. HHTCC, a Joint Venture between NOV Tuboscope and HYYJ, set up its second coating line on the premises of DP Master which went into operation in Sept 2007 with a coating capacity of 12,000 joints per month.

In terms of demand, the OCTG coating materials and services market outside China is divided among several hundred companies, the largest of which is estimated to account for less than 5% of the overall market.

As a result, market penetration requires significantly more marketing and sales resources than is the case in China. Major customers for OCTG coating services include oil and gas producers (45%), steel mills (25%), drilling contractors (20%), and tubular supply companies (10%). Larger drilling contractors and oil and gas producers have new pipe internally coated after delivery and have rigorous programs for inspecting and maintaining used pipe. In terms of supply, outside of China the OCTG coating materials and services market is highly consolidated. NOV Tuboscope dominates this market with approximately 50% of the North American market and approximately 80% of the international (excluding Russia and China) market.

R&D and Innovation Trends

The challenges for drill pipe coating engineers include higher downhole temperatures, increasingly acidic drilling fluids, and improved friction loss properties. Newer drill pipe powder coating materials have the ability to withstand formation temperatures of about 400 F, allowing circulation to be reduced without sacrificing performance. Powder coating also performs well with drilling fluids such as zinc bromides and the acids used to drill some wells. Powder coatings have a lower coefficient of friction, allowing higher mud flow rates, allowing drilling contractors to reduce the size of the mud pumps and rig weight at significant savings in total well costs.

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on October 15, 2008 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (for the purpose of this Appendix V the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on February 28, 2011 which shall become effective upon commencement of trading of shares of the Company on the Stock Exchange. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
 - (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
 - (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.
- (vi) **Remuneration**

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held

any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities

and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) *Alterations to constitutional documents*

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) *Alteration of capital*

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally

accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of

members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the

Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to

sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all

applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from October 28, 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted Company with limited liability on October 15, 2008. Our Company has established a place of business in Hong Kong at 9th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

We have registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on September 25, 2009. Ms. Cheng Pik Yuk of Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As our Company is established in the Cayman Islands, its operation is subject to the relevant laws and regulations of the Cayman Islands and its constitution, which comprises the Memorandum and Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of the Articles of Association is set out in Appendix V of this prospectus.

2. Changes in share capital of our Company

Hilong Holding Limited (formerly known as "Pacific Energy Holdings Limited")

On October 15, 2008, Hilong Holding Limited was incorporated in the Cayman Islands as a limited liability company. The authorized share capital of the Company at the date of its incorporation was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each. On the date of its incorporation, one share was allotted and issued at par, credited as fully paid, to the subscriber to the Memorandum and Articles, Codan Trust Company (Cayman) Limited, which was subsequently transferred to Mr. Zhang Jun on October 15, 2008.

Since the date of incorporation of our Company, the following alterations in its share capital have taken place.

On October 15, 2008, Codan Trust Company (Cayman) Limited transferred the one issued share at par, credited as fully paid to Mr. Zhang Jun.

On November 13, 2008, Mr. Zhang Jun transferred the one share at the par value of HK\$0.10 to Hilong Group Limited.

On November 30, 2010, pursuant to the written resolutions of all the shareholders of the Company, the authorized share capital of the Company was re-classified and re-designated to the effect that the authorized share capital of the Company became HK\$380,000 divided into 3,753,300 ordinary shares of a nominal or par value of HK\$0.10 each and 46,700 preferred shares of a nominal or par value of HK\$0.10 each, all of which were designated as series A preferred shares of the Company.

On November 30, 2010, the Company issued 953,299 ordinary shares and 46,700 Series A preferred shares to Hilong Group Limited and UMW China Ventures (L) Ltd. respectively, both credited as fully paid. Following the completion of the share transfers and issue, Hilong Group Limited, one of our Controlling Shareholders, and UMW China Ventures (L) Ltd. hold 95.33% and 4.67% interest in the Company, respectively.

On February 28, 2011, pursuant to the written resolutions of all the shareholders of the Company, the authorized share capital of the Company was diminished by the cancellation of all authorized but unissued series A preferred shares of HK\$0.10 each of the Company and following such diminution, the authorized share capital of the Company was increased by the creation of such number of ordinary shares of HK\$0.10 each of the Company necessary to increase the authorized share capital to HK\$3,000,000,000 divided into 30,000,000,000 shares of HK\$0.10 each.

In March 2011, Hilong Group Limited transferred 9.33% of Shares in our Company to certain BVI holding entities as part of the arrangement under Zhang's Family Trusts. See "—F. Mr. Zhang's Family Trust." Following the completion of such share transfer, Hilong Group Limited holds approximately 86% of equity interest in our Company and the BVI entities collectively hold an aggregate of approximately 9.33% of equity interest in our Company.

3. Changes in share capital or registered capital of the subsidiaries of our Company

Our subsidiaries are set out in the Accountant's Report in Appendix I to this prospectus. The following alterations in the share capital of our offshore and PRC subsidiaries took place within the two years immediately preceding the date of this prospectus.

Hilong Group of Companies (海隆石油工業集團有限公司)

On October 18, 2008, Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) transferred 35% interest in Hilong Group of Companies to Hailong International (L) Ltd. for a consideration of RMB182 million. Following completion of the share transfer, Hailong International (L) Ltd. was the sole shareholder of Hilong Group of Companies.

On August 16, 2010, Hailong International (L) Ltd. transferred 100% interest in Hilong Group of Companies to Hilong Energy Limited. Following completion of the share transfer, Hilong Group of Companies became a wholly-owned subsidiary of Hilong Energy Limited.

Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) ("Shanghai Hilong")

On August 10, 2010, Hailong International (L) Ltd. transferred 25% interest in Shanghai Hilong to Hilong Energy Limited for a consideration of US\$1.5 million. Following the completion of the share transfer, Hilong Group of Companies and Hilong Energy Limited held 75% and 25% interest in Shanghai Hilong, respectively.

Jiangsu Hilong Drill Pipe Co., Ltd. (江蘇海隆石油鑽具有限公司) ("Jiangsu Hilong")

On the date of incorporation, Hilong Group of Companies and Huashi Hailong held 75% and 25% interest in Jiangsu Hilong, respectively.

On November 11, 2008, Huashi Hailong transferred 25% interest in Jiangsu Hilong to Hilong Group of Companies. Following the completion of the share transfer, Jiangsu Hilong became a wholly-owned subsidiary of Hilong Group of Companies.

Shanxi Tangrong Hilong Drill Tools Co., Ltd. (山西湯榮海隆鑽具有限公司) ("Shanxi Tangrong")

On December 10, 2008, Shanxi Fenglei Machinery Manufacturing Company Limited (山西風雷機械製造有限公司) transferred 20% interest in Shanxi Tangrong to Shichuang Zhongheng (Beijing) Trading Company Limited (世創眾衡(北京)貿易有限公司) ("Shichuang Zhongheng") for a consideration of RMB8.0 million. Following the completion of the share transfer, Hilong Group of Companies, Shanxi Tangrong Car Components Manufacturing Group (山西湯榮汽車配件製造集團有限公司), Shichuang Zhongheng and Hailong International (L) Ltd., held 26%, 29%, 20% and 25% interest in Shangxi Tangrong, respectively.

Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) ("Shanghai Boteng")

On January 28, 2008, Xi'an Nate Oil Technology Company Limited (西安納特石油技術有限公司), Shanxi Ante Technology Engineering Company Limited (陝西安特技術工程有限公司), Mr. Gao Zhihai (高智海), Ms. Zhao Min (趙敏), Mr. Chen Jinbo (陳錦波), Mr. Zheng Baotian (鄭寶田) and Mr. Han Hongming (韓紅明) transferred 28%, 16%, 12%, 5%, 4%, 3% and 3% interest in Shanghai Boteng to Hilong Group of Companies, respectively. Following the completion of the share transfers, Shanghai Boteng became a wholly-owned subsidiary of Hilong Group of Companies.

On March 25, 2008, Hilong Group of Companies transferred 18% interest in Shanghai Boteng to Shaanxi Ante Technology Engineering Company (陝西安特技術工程有限公司) for a consideration of RMB2.6 million. On the same date, Hilong Group of Companies also transferred the following interests in Shanghai Boteng to the following individuals: 15% to Mr. Gao Zhihai (高智海) for a consideration of RMB2.0 million, 6% to Ms. Zhao Min (趙敏) for a consideration of RMB0.8 million, 4% to Mr. Chen Jinbo (陳錦波) for a consideration of RMB0.6 million and 3% to Mr. Han Hongming (韓紅明) for a consideration of RMB90,000. Following the completion of the share transfers, Hilong Group of Companies owned 54% equity interest in Shanghai Boteng.

Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司)

On September 27, 2010, Hailong International (L) Limited transferred 25% interest in Shanghai Hilong Shine New Material Co., Ltd. for a consideration of US\$1.9 million to Hilong Energy Limited. Following completion of the share transfer, Hilong Energy Limited, Hilong Group of Companies and Shaanxi Ante Technology Engineering Company Limited held 25%, 47% and 28% interest in Shanghai Hilong Shine New Material Co., Ltd., respectively.

Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司)

On March 19, 2008, Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. increased its share capital from RMB 5 million to RMB10 million. Following completion of the transaction, Hilong Group of Companies, Shaanxi Ante Technology Engineering Company Limited, Mr. Yuan Pengbin (袁鵬斌), Mr. Zhao Min (趙敏), Mr. Chen Jinbo (陳錦波) and Mr. Liu Yizhuang (劉義壯) held 60%, 22%, 5%, 5%, 5% and 3% interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd., respectively.

Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) (“*Shanghai Tube-Cote*”)

On January 20, 2009, ACE Tubular Technologies Pte. Ltd transferred 9% of interest in Shanghai Tube-Cote to UMW Petropipe (L) Ltd. On the same date, Huashi Hailong also transferred 51% interest to Hilong Group of Companies. Following the completion of the share transfers, Hilong Group of Companies and UMW Petropipe (L) Ltd. held 51% and 49% interest in Shanghai Tube-Cote, while Shanghai Baosheng Industrial Company Limited (上海寶盛實業有限公司) retained the land use right of 50 mullet owned by Shanghai Tube-Cote.

Jiangsu Tube-Cote Shuguang Co., Ltd. (江蘇圖博可特曙光塗層有限公司) (“*Jiangsu Tube-Cote*”)

On February 28, 2008, ACE Tubular Technologies Pte Ltd transferred 17.18% interest in Jiangsu Tube-Cote to Hailong International (L) Ltd. for a cash consideration of RMB13.3 million.

On December 24, 2008, ACE Tubular Technologies Pte Ltd transferred 4.44% interest to UMW Petropipe (L) Ltd. for a consideration of US\$3.4 million. Following the completion of the share transfers, Jiangsu Shuguang Group Company Limited (江蘇曙光集團有限公司), Shanghai Tube-Cote, UMW Petropipe (L) Ltd and Hailong International (L) Ltd held 33.78%, 41%, 8.04% and 17.18% interest in Jiangsu Tube-Cote, respectively.

Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司) (“*Xi'an Changqing Tube-Cote*”)

On February 26, 2008, Mr. Li Chongqi (李崇奇), Mr. Ju Yongning (巨永寧) and Mr. Guo Yajun (郭亞軍) transferred 0.17%, 8.28% and 29.73% interest in Xian Changqing Tube-Cote to Qingyang Changqing Juli Industrial Company Limited (慶陽長慶巨力實業有限公司), respectively, for an aggregate consideration of US\$6.9 million. Following the completion of the share transfers, Qingyang Changqing Juli Industrial Company Limited and Shanghai Tube-Cote held 55% and 45% interest in Xi'an Changqing Tube-Cote, respectively.

Sichuan Hailong Petroleum Technology Co., Ltd. (四川海隆石油技術有限公司) (“*Sichuan Hailong*”)

On November 20, 2009, Sichuan Hilong increased its share capital from RMB 3 million to RMB 6 million. Following the transaction, Sichuan Hailong remained a wholly-owned subsidiary of Hilong Group of Companies.

Hilong Energy Holding Limited (formerly known as “Pacific Energy International Limited”)

On November 13, 2008, Mr. Zhang Jun transferred the one allotted share at the nominal value of HK\$1.00 to Hilong Holding Limited. Following the completion of the share transfer, Hilong Energy Holding Limited became a wholly-owned subsidiary of Hilong Holding Limited.

Hilong Energy Limited (formerly known as “Brave Flame Limited”)

On July 8, 2008, Hilong Energy Limited was incorporated in Hong Kong with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. One subscriber share of HK\$1.00 was issued to Harefield Limited.

On November 13, 2008, Harefield Limited transferred the one allotted share to Hilong Energy Holding Limited valued at HK\$1.00. Following the completion of the transfer, Hilong Energy Limited became a wholly-owned subsidiary of Hilong Energy Holding Limited.

Hilong Investment Ltd

On February 25, 2008, Petrol Allied International Ltd transferred 6,000 shares at par US\$1.00 each to Hailong International (L) Ltd.

On April 19, 2010, Petrol Allied International Ltd transferred 10,000 shares at par US\$1.00 each to Hailong International (L) Ltd. Following the completion of the share transfers, Hilong Investment Ltd became a wholly-owned subsidiary of Hailong International (L) Ltd..

Hilong Oil Service & Engineering CIA. LTDA.

On October 12, 2009, Mr. Zhang Yuean transferred 399 shares at US\$1.00 each to Hilong Oil Service Ltd. and on the same date, Mr. Ytalo Cedeno transferred one share at US\$1.00 each to Hailong International (L) Ltd. Following completion of the share transfers, Hilong Oil Service Ltd. held 99.75% and Hilong International (L) Ltd. held 0.25% interest in Hilong Oil Service & Engineering CIA. LTDA, respectively.

Hilong Petroleum Technology & Engineering Company

On December 28, 2006, Hilong Petroleum Technology & Engineering Company was incorporated in Kazakhstan with an issued share capital of 111,000 Tenge held by Mr. Nurshyn.

On August 22, 2008, Mr. Nurshyn transferred 100% interest to Hilong Oil Service & Engineering Co., Ltd. and subsequently on January 6, 2010, Hilong Oil Service & Engineering Co., Ltd. transferred 100% interest to Hilong Oil Service Ltd. Following the completion of the share transfers, Hilong Petroleum Technology & Engineering Company became a wholly-owned subsidiary of Hilong Oil Service Ltd.

Pt. Hilong Oil Service & Engineering Indonesia

On November 4, 2010, Pt. Hilong Oil Service & Engineering Indonesia increased its share capital from US\$150,000 to US\$600,000. Following the completion of the transaction, Hilong Oil Service Ltd. and Mrs. Anizar Djalil held 95% and 5% of interest in Hilong Oil Service & Engineering Indonesia, respectively. Mrs. Anizar Djalil is an independent third party who holds 5% equity interest in PT Hilong Oil Service & Engineering Indonesia as a nominee shareholder for the benefit of Hilong Oil Service Ltd.

4. Written resolutions of our Company’s shareholders passed on February 28, 2011

Pursuant to the resolutions in writing passed by the shareholders of our Company on February 28, 2011 conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may

be issued pursuant to the Capitalization Issue, the exercise of the Over-allotment Option or options which may be granted under the Pre-IPO Share Option Scheme) and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements, the following resolutions, among others, was passed:

- (a) the Global Offering was approved and the Directors were authorized to allot and issue the new Shares under the Global Offering;
- (b) the Over-allotment Option was approved and the Directors were authorized to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;
- (c) the Pre-IPO Share Option Scheme, the principal terms of which are set out in the paragraph headed "Pre-IPO Share Option Scheme" in this Appendix, was approved and ratified and the Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Pre-IPO Share Option Scheme and to vote on any matter connected therewith notwithstanding they or any of them may be interested in the same;
- (d) a general unconditional mandate was given to the Directors to exercise all powers of the Company to allot, issue and deal with (including the power to make or grant offers, agreements, options and other rights, and issue warrants and other securities which would or might require Shares to be allotted and issued), otherwise than pursuant to an issue of Shares upon exercise of the Over-allotment Option or upon exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or pursuant to a rights issue or pursuant to any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the exercise of the options granted or may be granted under the Pre-IPO Share Option Scheme or other similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of shares or right to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares with an aggregate nominal value not exceeding 20% of aggregate of the total nominal amount of the share capital of the Company in issue, as enlarged by the Global Offering and the Capitalization Issue (but excluding any share capital of the Company which may be issued pursuant to the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;
- (e) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of the Company in issue, as enlarged by the Global Offering and the Capitalization Issue (but excluding any share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolutions of the Shareholders in general meeting, whichever occurs first;
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal amount of share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to or in accordance with such mandate of an amount representing the aggregate nominal amount of the Shares in the capital

of the Company repurchased by repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue, as enlarged by the Global Offering and the Capitalization Issue (but excluding any share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option); and

- (g) the authorised share capital of the Company was diminished by the cancellation of all authorised but unissued series A preferred shares of HK\$0.10 each of the Company and following such diminution, the authorised share capital of the Company was increased by the creation of such number of ordinary shares of HK\$0.10 each of the Company necessary to increase the authorised share capital to HK\$3,000,000,000 divided into 30,000,000,000 shares of HK\$0.10 each;
- (h) a new Memorandum of Association and a new Articles of Association was approved and adopted.

5. Corporate reorganization

Please refer to the section “History and Reorganization” in this prospectus for details of the corporate reorganization.

6. Repurchase of our Company’s own securities

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders’ approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a specific transaction.

Pursuant to the written resolutions passed by the shareholders of the Company on February 28, 2011, a general unconditional mandate (the “Repurchase Mandate”) was granted to the Directors authorizing the repurchase by the Company of Shares as described above in the section head “Written resolutions of our Company’s shareholders passed on February 28, 2011”.

(ii) Source of funds

Repurchases must be funded out of funds legally available for such purpose in accordance with the Articles of the Company and the laws of the Cayman Islands. A listed company may repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange prevailing from time to time.

(a) Reasons for repurchases

The Directors believe that it is in the interests of the Company and its shareholders for the Directors to have a general authority from shareholders to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or earnings per Share.

(b) *Funding of Repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles of the Company and the applicable laws and regulations of the Cayman Islands.

It is presently proposed that any repurchase of the Shares will be made out of funds of the Company legally permitted to be utilized in this connection, including the profits of the Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorized by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles and subject to the Companies Law, out of capital of the Company.

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(c) *Share Capital*

Exercise in full of the Repurchase Mandate, on the basis of 1,600,000,000 Shares in issue immediately after the Global Offering without taking account the Shares which may be issued under the Over-allotment Option and the Pre-IPO Share Option Scheme, could accordingly result in up to 160,000,000 Shares (which are fully paid) being repurchased by the Company during the period prior to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or
- (iii) the revocation or variation of the Repurchase Mandate by an ordinary resolution of the shareholders in general meeting,

whichever occurs first.

(d) *General*

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he or it has a present intention to sell any Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) a joint venture contract (合資組建合同書) between Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) and Shanghai Jiafang Steel Pipe (Group) Co., Ltd. (上海佳方鋼管(集團)有限公司) dated March 23, 2010 for the establishment of Hilong Anti-Corrosion Technology Engineering Taicang Co., Ltd (海隆防腐技術工程(太倉)有限公司);

- (b) a master investment agreement dated August 23, 2010 between Zhang Jun (張軍), Hilong Group Limited, our Company and UMW China Ventures (L) Ltd., details of which have been disclosed in the section headed “History and Reorganization” of the Prospectus;
- (c) a share transfer agreement dated December 10, 2010 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to transfer 75% of the equity interest in Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd (天津雙海石油鋼管製造有限公司) to Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) for a consideration of RMB13,155,000;
- (d) a share transfer agreement dated December 15, 2010 between Hailong International (L) Ltd. (海隆國際有限公司) and Hilong Energy Limited (海隆能源有限公司), pursuant to which Hailong International (L) Ltd. (海隆國際有限公司) agreed to transfer 45% of the equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華園博可特管道塗層有限公司) to Hilong Energy Limited (海隆能源有限公司) for a consideration of USD1,250,000;
- (e) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 28% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd (上海海隆賽能新材料有限公司) for a consideration of RMB42,893,052.05;
- (f) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 18% of the equity interest in Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) for a consideration of RMB10,472,515.63;
- (g) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Gao Zhihai (高智海), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 15% of the equity interest in Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) for a consideration of RMB8,727,096.36;
- (h) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Zhao Min (趙敏), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 6% of the equity interest in Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) for a consideration of RMB4,189,006.25;
- (i) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Chen Jinbo (陳錦波), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 4% of the equity interest in Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) for a consideration of RMB2,782,690.24;
- (j) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Han Hongming (韓紅明), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 3% of the equity interest in Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) for a consideration of RMB3,054,483.73;
- (k) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Shaanxi Ante Technology Engineering Co., Ltd. (陝西安特石油技術工程有限公司), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 22% of the equity interest in Shanghai Hilong Anti-

- Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) for a consideration of RMB19,057,321.21;
- (l) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Yuan Pengbin (袁鵬斌), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 5% of the equity interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) for a consideration of RMB4,479,019.83;
 - (m) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Zhao Min (趙敏), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 5% of the equity interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) for a consideration of RMB4,922,451.24;
 - (n) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Chen Jinbo (陳錦波) pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 5% of the equity interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) for a consideration of RMB4,946,409.59;
 - (o) a share purchase agreement dated February 22, 2011 between Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and Liu Yizhuang (劉義壯), pursuant to which Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) agreed to acquire 3% of the equity interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) for a consideration of RMB2,904,693.29;
 - (p) an agreement to sell shares dated January 31, 2011 between Hilong Oil Pipe Co Ltd. and Xia Gao, Hilong Investment Ltd., and Hilong Petropipe Co. Ltd., pursuant to which Hilong Investment Ltd. agreed to acquire two hundred Class “A” Common Voting Shares in the share capital of Hilong Petropipe Co. Ltd. for a consideration of C\$200.00;
 - (q) the Public Offer Underwriting Agreement;
 - (r) the deed of tax indemnity dated March 3, 2011 given by our Controlling Shareholders in favor of our Company being the deed of indemnity containing indemnities in respect of, amongst others, taxation referred to in the section headed “—H. Other Information—1. Tax and other indemnities” in this Appendix;
 - (s) the non-competition deed dated March 3, 2011 between our Company and the Controlling Shareholders;
 - (t) a placing agreement dated March 30, 2011 entered into among our Company, the Joint Bookrunners and AVIC-CCBI Aviation Industry Investment Fund, L.P. for such number of Shares as may be purchased with an amount of US\$20 million at the Offer Price, details of which are set out in the section headed “Cornerstone Investors” of this prospectus; and
 - (u) a placing agreement dated April 6, 2011 entered into among our Company, the Joint Bookrunners and Cheerful Link Holdings Limited for such number of Shares as may be purchased with an amount of US\$10 million at the Offer Price, details of which are set out in the section headed “Cornerstone Investors” of this prospectus.








2. Intellectual property rights material to the Group's business

Set out below are particulars as of the Latest Practicable Date of all the intellectual and industrial property rights which are material in relation to the Group's business:

(a) Trademarks


- (i) As of the Latest Practicable Date, our Company was the registered proprietor of, or has been licensed to use, the following trademarks which are material in relation to our Group's business:

<u>Trademark</u>	<u>Registration Number</u>	<u>Class</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
	6531506	2	Hilong Group of Companies Ltd.	China	March 28, 2010	March 27, 2020
	6531505	2	Hilong Group of Companies Ltd.	China	May 7, 2010	May 6, 2020
	6865326	7	Hilong Group of Companies Ltd.	China	May 7, 2010	May 6, 2020
	6865321	40	Hilong Group of Companies Ltd.	China	May 7, 2010	May 6, 2020
	6865323	40	Hilong Group of Companies Ltd.	China	May 7, 2010	May 6, 2020
	6830507	6	Hilong Group of Companies Ltd.	China	May 28, 2010	May 27, 2020
	6831509	6	Hilong Group of Companies Ltd.	China	May 28, 2010	May 27, 2020
	6531487	7	Hilong Group of Companies Ltd.	China	May 28, 2010	May 27, 2020

<u>Trademark</u>	<u>Registration Number</u>	<u>Class</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
	6531488	7	Hilong Group of Companies Ltd.	China	May 28, 2010	May 27, 2020
	6531489	7	Hilong Group of Companies Ltd.	China	May 28, 2010	May 27, 2020
	6865324	7	Hilong Group of Companies Ltd.	China	July 7, 2010	July 6, 2020
	6865327	4	Hilong Group of Companies Ltd.	China	July 7, 2010	July 6, 2020
	6865328	4	Hilong Group of Companies Ltd.	China	July 7, 2010	July 6, 2020
	6865329	4	Hilong Group of Companies Ltd.	China	July 7, 2010	July 6, 2020
	301215242	2, 4, 6, 7, 40, 42	Hilong Group of Companies Ltd.	Hong Kong	October 6, 2008	October 6, 2018
	301215224	2, 4, 6, 7, 40, 42	Hilong Group of Companies Ltd.	Hong Kong	October 6, 2008	October 6, 2018
	301215233	2, 4, 6, 7, 40, 42	Hilong Group of Companies Ltd.	Hong Kong	October 6, 2008	October 6, 2018
	83762	4	Hilong Group of Companies Ltd.	Kuwait	November 6, 2008	November 6, 2018

<u>Trademark</u>	<u>Registration Number</u>	<u>Class</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
	54501	42	Hilong Group of Companies Ltd.	Oman	November 18, 2008	November 18, 2018
	377952	2, 6, 7	Hilong Group of Companies Ltd.	Russia	February 5, 2008	February 5, 2018
	100304	4	Hilong Group of Companies	United Arab Emirates	August 27, 2008	August 27, 2018
	3,685,157	4, 7, 40, 42	Hilong Group of Companies Ltd.	USA	September 22, 2009	September 22, 2019

- (ii) As at the Latest Practicable Date, our Group has applied for the registration of the following trademark which is material in relation to our Group's business:

<u>Trademark</u>	<u>Class</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Application</u>
	2, 6, 7	Hilong Group of Companies Ltd.	China	January 22, 2008

(b) Patents

As at the Latest Practicable Date, our Group has obtained registrations of the following patents which are material in relation to our Group's business:

<u>Patent</u>	<u>Registration Number</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
anticorrosion oil pipe and connecting structure	ZL 2007 2 0073976.7	Shanghai Hilong Tubular Goods Research Institute	China	June 11, 2008	June 11, 2018
tool joints of curved-faced butt-jointed double-shoulder high torque-resistant drill pipe	ZL 2007 2 0073975.2	Shanghai Hilong Tubular Goods Research Institute	China	August 13, 2008	August 13, 2018
tool joints of extra-long double-shoulder high torque-resistant drill pipe	200720075405.7	Shanghai Hilong Tubular Goods Research Institute	China	December 9, 2009	December 9, 2019
tool joints of modified digital thread double-shoulder high torque-resistant drill pipe	ZL 2007 2 0076821.9	Shanghai Hilong Tubular Goods Research Institute	China	August 13, 2008	August 13, 2018
structure connecting the pipe body made of composite material and the steel tool joint	ZL 2008 2 0056720.X	Shanghai Hilong Tubular Goods Research Institute	China	July 1, 2009	July 1, 2019

<u>Patent</u>	<u>Registration Number</u>	<u>Name of Registered Proprietor</u>	<u>Place of Registration</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
tool joints of fair torque-resistant drill pipe	200820056719.7	Shanghai Hilong Tubular Goods Research Institute	China	March 4, 2009	March 4, 2019
tool joints of relatively-high-torque-resistant drill pipe	ZL 2008 2 0056721.4	Shanghai Hilong Tubular Goods Research Institute	China	February 25, 2009	February 25, 2019
seals with changeable diameter	200920070501.1	Shanghai Hilong Tubular Goods Research Institute	China	February 17, 2010	February 17, 2020
Carbon dioxide build-up welding machine for drilling tool hardfacing	200710047346.7	Hilong Group of Companies Ltd.	China	July 23, 2008	July 23, 2018

(c) Domain Name

As at the Latest Practicable Date, our Group has registered the following domain name which is material in relation to our Group's business:

<u>Domain Name</u>	<u>Registrant</u>	<u>Term</u>
hilonggroup.net	Hilong Group of Companies Ltd.	April 30, 2008 to April 30, 2011 ^{Note(1)}

Note:

(1) We expect to extend the term of this domain name for an additional 10 years.

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

- (a) Interests and/or short positions of the Directors and chief executives in the share capital of our Company and its associated corporations following the Global Offering and the Capitalization Issue.

Immediately following completion of the Global Offering and the Capitalization Issue (but taking no account of any Shares which may be taken up under the Global Offering and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option), the interests and/or short positions of the Directors and chief executives of our Company in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Long and short positions in our Shares

<u>Name of Director</u>	<u>Nature of interest</u>	<u>No. of shares of Interest^{Note 1}</u>	<u>Approximate Percentage of Shareholding</u>
Mr. Zhang	Beneficiary of Mr. Zhang's Trust	1,031,959,200	85.9996%

Note:

(1) All interest in the Shares are long positions.

- (b) Interests and/or short positions of the substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering and the Capitalization Issue (but taking no account of any Shares to be issued pursuant to exercise of the Over-allotment Option), so far as the Directors are aware, the following persons (not being a Director or a chief executive of our Company) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Long position in our Shares

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>No. of shares of Interest ⁽¹⁾</u>	<u>Approximate Percentage of Shareholding</u>
<i>Substantial shareholders</i>			
Mr. Zhang	Beneficiary of Mr. Zhang's Trust	1,031,959,200	64.50%
Hilong Group Limited	Beneficial owner	1,031,959,200	64.50%
Standard Chartered Trust (Cayman) Limited	Trustee	1,143,960,000	71.50%

Note:

(1) All interest in the Shares are long positions.

(c) *Negative statements regarding interests in securities*

None of the Directors or chief executive will immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised) have any disclosure interests (as referred to in (a) above), other than as disclosed at (a) above.

Taking no account of Shares which may be taken up under the Global Offering and Shares which may fall to be issued upon the exercise of options which may be granted under the Pre-IPO Share Option Scheme, none of the Directors knows of any persons who will immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised) have a notifiable interest under the provisions under Divisions 2 and 3 of Part XV of the SFO or who (not being a member of the Group) will immediately following the completion of the Global Offering be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital in any member of the Group carrying rights to vote in all circumstances at general meetings of such member of the Group, other than as disclosed in (b) above.

2. Particulars of Directors' service contracts and letters of appointment

Each of the Executive Directors has entered into a service contract with our Company for an initial term of three years, commencing from December 2, 2010 to December 2, 2013 (subject to termination in certain circumstances as stipulated in the relevant service contract).

Pursuant to the service contracts, the director's fees of our Executive Directors are as follows:

<u>Director</u>	<u>Remuneration (per annum)</u>
	<u>HK\$'000</u>
Zhang Jun	0
Zhang Shuman	0
Ji Min	0

In addition, each of our Executive Directors is fully reimbursed for all reasonable out-of-pocket expenses reasonably incurred in the course of his/her employment under the relevant service contracts.

Each of the Non-executive Directors has signed a letter of appointment with our Company for an initial term of three years (subject to termination in certain circumstances as stipulated in the relevant letters of appointment). The annual remuneration payable to each of our Non-executive Directors under the relevant letters of appointment is as follows:

<u>Director</u>	<u>Remuneration (per annum)</u> HK\$'000
Datuk Syed Hisham Bin Syed Wazir	0
Yuan Pengbin	0
Wang Tao	0

Each of the Non-executive Directors is fully reimbursed for all reasonable out-of-pocket expenses incurred in discharging his duties on production of appropriate proofs of payment.

Each of the Independent Non-executive Directors has signed a letter of appointment with our Company for an initial term of three years commencing from December 2, 2010 to December 2, 2013 (subject to termination in certain circumstances as stipulated in the relevant letters of appointment). The annual remuneration payable to each of our Independent Non-executive Directors under the relevant letters of appointment is as follows:

<u>Director</u>	<u>Remuneration (per annum)</u> HK\$'000
Wang Tao	120
Liu Qihua	120
Lee Siang Chin	120

In addition, each of the Independent Non-executive Directors is fully reimbursed for all reasonable out-of-pocket expenses incurred in discharging his duties on production of appropriate proofs of payment.

Save as disclosed in this Appendix, none of the Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without payment of compensation other than statutory compensation).

3. Remuneration of Directors

The aggregate amount of fee, salaries, housing allowances, other allowances and benefits in kind paid by the Group during the three years ended December 31, 2010 was approximately RMB1.1 million, RMB1.0 million and RMB1.1 million, respectively. The current annual Director's fees and remuneration of the executive and non-executive Directors are as follows:-

Under the arrangement currently in force, the aggregate amount of emoluments payable by the Group to the Directors for the year ending December 31, 2011 will be approximately HK\$360,000.

Further details of the terms of the service contracts with our Directors are set out in the paragraph headed "Particulars of service contracts" in this section.

4. Agency fees or commission

Save as disclosed in this Appendix, within two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

5. Related party transactions

During the two years immediately preceding the date of this prospectus, our Company has engaged in dealings with certain Directors and their associates as described in Note 36 to the “Notes to the Financial Information” section of the Accountant’s Report set out in Appendices I to this prospectus.

D. DISCLAIMERS

Save as disclosed in this Appendix:

- (a) none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) none of the Directors or experts referred to under the heading “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors or experts referred to under the heading “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering and of any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and the option which may be granted under Pre-IPO Share Option Scheme, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Global Offering, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;
- (f) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or shareholders of the Company who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

E. PRE-IPO SHARE OPTION SCHEME

1. Summary of Terms

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme which became effective on January 1, 2011.

(a) *Purpose*

The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) have or may have made to our Company. The Pre-IPO Share Option Scheme will provide the Eligible Participants with an opportunity to have a personal stake in our Company with a view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of our Company; and
- (ii) attract and retain or otherwise maintain relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Company.

(b) *Who may join*

The eligible participants (collectively the “**Eligible Participants**”) under the Pre-IPO Share Option Scheme include the following:

- (i) the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company;
- (ii) the full-time employees of any of the subsidiaries of the level of manager or above;
- (iii) technical experts that have contributed or will contribute to our Company and/or any of its subsidiaries; and
- (iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to our Company and/or any of the subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Maximum number of Shares*

The total number of Shares subject to the Pre-IPO Share Option Scheme is 46,322,000 Shares, representing approximately 2.9% of the issued share capital of our Company immediately upon completion of the Global Offering.

(d) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Pre-IPO Share Option Scheme shall be a price equivalent to the Offer Price.

(e) *Rights are personal to grantee*

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do.

(f) *Time of exercise of Option and duration of the Pre-IPO Share Option Scheme*

The grantees to whom an option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise his/her option up to 20% at any time commencing from an anniversary of the Listing Date and ending in the next anniversary of the Listing Date, except the last 20% which will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period.

The Options granted under the Pre-IPO Share Option Scheme are not transferable and options not exercised within the exercise period above will lapse and cease to be of further effect.

(g) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(h) *Effect of alterations to capital*

In the event of capitalization issue, rights issue, open offer, consolidation, subdivision or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the method of exercise of the option as the auditors of our Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to pre-IPO share option schemes (the “**Supplemental Guidance**”). Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company (as interpreted in accordance with the Supplementary Guidance for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(i) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the respective stated exercise period in the Pre-IPO Share Option Scheme;
- (ii) the date of expiry of the option as may be determined by the Board;

- (iii) the date of commencement of the winding-up of our Company in accordance with the Companies Law;
- (iv) the date on which the grantee ceases to be an Eligible Participant for any reason. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (v) the date on which the Board shall exercise our Company's right to cancel the option in accordance with paragraph (l) below.
- (j) *Alteration of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that any material alteration to the terms and conditions of the Pre-IPO Share Option Scheme or any change to the terms of options granted, shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Pre-IPO Share Option Scheme.

(k) *Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options.

(l) *Termination of the Pre-IPO Share Option Scheme*

We may by resolution in general meeting or the Board at any time terminate the Pre-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

(m) *Administration of the Board*

The Pre-IPO Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Pre-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(n) *Disclosure in annual and interim reports*

We will disclose details of the Pre-IPO Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time. Our Directors confirm that they will not exercise any options granted under the Pre-IPO Share Option Scheme if as a result of the conversion our Company would not be able to comply with the minimum public float requirement of the Listing Rules.

2. Outstanding Options

As of the date of this prospectus, options to subscribe for an aggregate of 46,322,000 Shares at an exercise price equivalent to the Offer Price have been conditionally granted by our Company under the Pre-IPO Share Option Scheme. A total of 225 eligible participants have been granted options under the Pre-IPO Share Option Scheme.

Below is a list of the Directors who are grantees under the Pre-IPO Share Option Scheme:

<u>Grantee and position</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding upon the exercise of options</u>
Zhang Jun <i>(Chairman, executive Director, chief executive officer and Controlling Shareholder)</i>	Room 2102, No. 1 Block No. 88 Jianguo Road Chaoyang District Beijing China	600,000	0.0364%
Zhang Shuman <i>(Executive Director and chief strategy officer)</i>	Room 401, No. 56, 8th District Jinqiu Road Lane 699 Baoshan District Shanghai China	600,000	0.0364%
Ji Min <i>(Executive Director and chief financial officer)</i>	Room 301 No. 42 Lingyan Road, Lane 56 Pudong New District Shanghai	800,000	0.0486%
Yuan Pengbin <i>(Non-executive Director)</i>	Room 302 No. 10 Luoying Road, Lane 558 Baoshan District Shanghai China	2,150,000	0.1306%
Wang Tao <i>(Non-executive Director)</i>	Room 1101, Block 4 No. 6 Bei Yuan Tian Yue Yuan Chaoyang District Beijing China	2,150,000	0.1306%
Subtotal		6,300,000	

Below is a list of senior management who are grantees under the Pre-IPO Share Option Scheme:

<u>Grantee</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding upon the exercise of options</u>
Chen Su <i>(General Manager of Hilong Group of Companies Ltd.)</i>	Room 1002 No. 9 Fengyang Road, Lane 588 Jingan District Shanghai China	2,150,000	0.1306%
Dai Daliang <i>(Director of Hilong Drilling & Supply FZE, director of Hilong Oil Services and Engineering Nigeria Limited and director and the general manager of Hilong Oil Service & Engineering Co., Ltd.)</i>	Room 4-702, Xiang Shang Jia Yuan No. 10 Ande Road A Dongcheng District Beijing China	2,150,000	0.1306%
Liu Yizhuang <i>(General manager of the international business department of Hilong Group of Companies Ltd.)</i>	Room 602 No. 73 Guangzhong West Road, Lane 73 Shanghai China	2,150,000	0.1306%
Cao Yuhong <i>(General manager of Shanghai Hilong Drill Pipe Co., Ltd. and general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.)</i>	Room 1302 No. 38 Haijiang Road, Lane 38 Baoshan District Shanghai China	600,000	0.0364%
Fang Junfeng <i>(Director and the general manager of Shanghai Hilong Shine New Material Co., Ltd. and director and the general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.)</i>	Room 302 No. 17 Luoying Road, Lane 558 Baoshan District Shanghai China	600,000	0.0364%
Gao Zhihai <i>(Chairman and general manager of Shanghai Boteng Welding Consumables Co., Ltd. and director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.)</i>	Room 401 No. 1 Shuangcheng Road, Lane 2 Baoshan District Shanghai China	600,000	0.0364%
Xue Zhijun <i>(General manager of CNOOC Tube-Cote Petroleum Pipe Coating Co., Ltd.)</i>	No. 7-701, Lane 50 Dedu Road Baoshan District Shanghai China	420,000	0.0255%
Subtotal		8,670,000	

Below is a list of the connected persons who are grantees under the Pre-IPO Share Option Scheme:

<u>Grantee</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding upon the exercise of options</u>
Zhao Min <i>(Co-manager of Sales of Shanghai Hilong Drill Pipe Co., Ltd.)</i>	Room 902 No. 66 Lingnan Road, Lane 1288 Baoshan District Shanghai China	600,000	0.0364%
Zhang Jing <i>(President of the Labor Union of Hilong Group of Companies Ltd.)</i>	No. 50, Group 1 East Community, Donghuan Road Qingzhou Town, Qing County, Cangzhou Hebei Province China	600,000	0.0364%
Chen Jinbo <i>(Executive director of overseas development branch and head of planning and development department of Hilong Group of Companies Ltd.)</i>	Room 202 No. 79 Luoying Road, Lane 558 Baoshan District Shanghai China	600,000	0.0364%
Cao Hongbo <i>(Co-manager, head of general department and purchase department of Hilong Group of Companies Ltd.)</i>	Room 301 No. 43 Luoying Road, Lane 558 Baoshan District Shanghai China	800,000	0.0486%
Subtotal		2,600,000	

Below is a list of the grantees who have 600,000 or more Shares exercisable under the options granted under the Pre-IPO Share Option Scheme:

<u>Grantee</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding upon the exercise of options</u>
Shuai Yamin <i>(Co-manager of Sales of Shanghai Hilong Drill Pipe Co., Ltd.)</i>	Room 203 No. 35 Luoying Road, Lane 19 Baoshan District Shanghai China	600,000	0.0364%
Qiao Xiaotang <i>(Co-manager of Sales of Shanghai Hilong Drill Pipe Co., Ltd.)</i>	Room 302 No. 46 Luoying Road, Lane 558 Baoshan District Shanghai China	600,000	0.0364%
Bai Xueming <i>(Co-manager of Sales of Shanghai Hilong Drill Pipe Co., Ltd.)</i>	Room 401 No. 77 Luoying Road, Lane 558 Baoshan District Shanghai China	600,000	0.0364%

<u>Grantee</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding upon the exercise of options</u>
Liu Song <i>(Co-manager of overseas sales of Hilong Group of Companies Ltd.)</i>	Room 301 No.11 Guangzhong Road West, Lane 99 Zhabei District Shanghai China	600,000	0.0364%
Zhang Jianwei <i>(Co-manager of Hilong Oil Service and Engineering Co., Ltd.)</i>	Room 042 North Building 18, No. 8 Huayuan Road Haidian District Beijing China	600,000	0.0364%
Wang Xianglei <i>(Co-manager of Hilong Oil Service and Engineering Co., Ltd.)</i>	Room 6-2-302 Ao Cheng Tian Yue Yuan Community Bei Chen Lu Se Jia Yuan Chaoyang District Beijing China	600,000	0.0364%
Xi Xiaotang <i>(Legal advisor of capital operation department of Hilong Group of Companies Ltd.)</i>	Room 302 No. 57, Shun Chi Mei Lan Hu Luoying Road, Lane 558 Baoshan District Shanghai China	600,000	0.0364%
Xu Peng <i>(Manager of coating department of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.)</i>	Room 601 No. 21, Fu Hao He Bin Garden No. 88 Yue Pu De Du Road Baoshan District Shanghai China	600,000	0.0364%
Sun Jian <i>(Co-manager of Shanghai Hilong Shine New Material Co., Ltd.)</i>	Room 1201 No. 38 Haijiang Road, Lane 667 Baoshan District Shanghai China	600,000	0.0364%
Subtotal		5,400,000	

In addition to the above grantees, 200 other employees of our Company have been granted options to subscribe for an aggregate number of 23,352,000 Shares, representing approximately 1.4% of the issued share capital of our Company immediately upon completion of the Global Offering and after exercise of all options granted under the Pre-IPO Share Option Scheme, with individual grant ranging from 16,000 to 420,000 Shares.

Save for the above, no further options has been offered under the Pre-IPO Share Option Scheme and no further options will be offered thereunder on or after the Listing Date.

The shareholding structure of our Company before and after the full exercise of all the options granted under the Pre-IPO Share Option Scheme will be as follows:

	<u>Before any exercise</u>	<u>After full exercise</u>
Hilong Group Limited	64.50%	62.69%
UMW China Venture (L) Ltd.	3.50%	3.40%
Mr. Zhang's Family Trusts	7%	6.80%
Grantees under Pre-IPO Share Option Scheme	0%	2.81%
Public	<u>25%</u>	<u>24.30%</u>
Total	100%	100%

We will ensure compliance with the minimum public float requirement of Rule 8.08 of the Listing Rules.

3. Valuation of the Options Granted under the Pre-IPO Share Option Scheme

The valuation of options granted under the Pre-IPO Share Option Scheme was conducted based on the Binomial Model with the following assumptions:

Date of grant	: January 1, 2011
Estimated share price at the date of grant	: RMB2.59
Annual risk free rate	: 2.87%
Expected volatility	: 56.41%
Life of the option	: 10 years
Expected dividend yield	: 2%

The share-based payment expense in relation to the Pre-IPO Share Option Scheme is estimated to be approximately HK\$42.4 million, which will be amortized over the vesting period of the share options from year 2011 to year 2015.

The fair value per share option:

1-Jan-12	HK\$0.87
1-Jan-13	HK\$0.94
1-Jan-14	HK\$0.95
1-Jan-15	HK\$0.93
1-Jan-16	HK\$0.89

The result of the Binomial Model can be materially affected by changes in the aforesaid assumptions so an option's actual value may be differ from the estimated fair value of the options due to limitations of the Binomial Model. All options forfeited before expiry of the Pre-IPO Share Option Scheme will be treated as lapsed and will not be added back to the number of shares available to be issued under the Pre-IPO Share Option Scheme.

4. Effect on the Earnings per Share as a Result of the Pre-IPO Share Options

Assuming that all of the options granted under the Pre-IPO Share Option Scheme are exercised in full on the Listing Date, this would have a dilutive effect on the shareholdings of our Company of approximately 2.8%. If calculated based on (i) 1,646,322,000 Shares, the assumed number of Shares to be in issue and outstanding throughout the year ended December 31, 2010 solely for purposes of this calculation, comprising 1,600,000,000 Shares to be in issue immediately after the Global Offering and 46,322,000 Shares to be issued upon the exercise of all the options granted under the Pre-IPO Share Option Scheme, and (ii) our combined profit attributable to equity holders of the Company for the year ended December 31, 2010, our earnings per Share for the year ended December 31, 2010 would not have materially and adversely decreased.

5. Waiver

We have applied for (a) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under rule 17.02 (1)(b) and paragraph 27 of Appendix IA to the Listing Rules; and (b) a certificate of exemption under section 342A of the Companies Ordinance from the SFC in strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies Ordinance, on the grounds set forth below:

- (a) in light of the large number of grantees involved (225 grantees in total), strict compliance with such disclosure requirements, in setting out full details of all grantees under the Pre-IPO Share Option Scheme in the prospectus, would be unduly burdensome for the Company;
- (b) the grant and exercise in full of the options granted under the Pre-IPO Share Option Scheme will not cause any material adverse impact in the financial position of the Company;
- (c) non-compliance with the disclosure requirements does not prevent the Company from providing an informed assessment of the activities, assets, liabilities, financial position, management and prospects of the Company to its potential investors;
- (d) all information of the options granted to (i) Directors, (ii) senior management, (iii) personnel who have been granted with 600,000 options or more under the Pre-IPO Share Option Scheme and (iv) grantees who are also connected persons of our Company would be disclosed in the section headed "Pre-IPO Share Option Scheme" in Appendix VI of the prospectus, which would provide potential investors with sufficient information to make informed decision; and
- (e) all material information of the Pre-IPO Share Option Scheme that is reasonably necessary for potential investors to make an informed assessment of the activities and financial position of the Company have been included in this prospectus. Non-compliance with the disclosure requirements will not prejudice the interest of the investing public.

The Stock Exchange has granted the waiver to us on the condition that the following particulars are set out in the Company's prospectus and the prospectus will be issued on or before April 11, 2011:

- (a) the aggregate number of shares subject to the outstanding options granted under the Pre-IPO Share Option Scheme and the percentage to the Company's total issued share capital represented by such number of shares;
- (b) on an individual basis, full details of each option holder under the Pre-IPO Share Option Scheme who is (i) a Director of the Company; (ii) a member of the senior management of the Company; (iii) a connected person of the Company; or (iv) a grantee who has 600,000 or more Shares exercisable under the options granted, including all particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance;
- (c) in respect of the options granted by the Company under the Pre-IPO Share Option Scheme other than those referred to in sub-paragraph (b) above, (i) the aggregate number of grantees and the number of shares subject to the options; (ii) the consideration paid for the grant of the options; and (iii) the exercise period and the exercise price for the options;
- (d) dilution effect to the shareholding in the Company and impact on the earnings per Share; and
- (e) a list of all the grantees (including those persons whose details have already been disclosed in the Prospectus) who have been granted options under the Pre-IPO Share Option Scheme containing all the particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance be made available for public inspection in accordance with the paragraph entitled "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus.

The SFC (pursuant to Section 342A of the Companies Ordinance) has granted the certificate of exemption to us on the condition that the following particulars are set out in the Company's prospectus and the prospectus will be issued on or before April 11, 2011:

- (a) on an individual basis, full details of each option holder under the Pre-IPO Share Option Scheme who is (i) a Director of the Company; (ii) a member of the senior management of the Company; (iii) a connected person of the Company; or (iv) a grantee who has 600,000 or more Shares exercisable under the options granted, including all particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance;
- (b) in respect of the options granted by the Company under the Pre-IPO Share Option Scheme other than those referred to in sub-paragraph (a) above, (i) the aggregate number of grantees and the number of shares subject to the options; (ii) the consideration paid for the grant of the options; and (iii) the exercise period and the exercise price for the options; and
- (c) a list of all the grantees (including those persons whose details have already been disclosed in the Prospectus) who have been granted options under the Pre-IPO Share Option Scheme containing all the particulars as required under Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies Ordinance be made available for public inspection in accordance with the paragraph entitled "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus.

F. MR. ZHANG'S FAMILY TRUSTS

In March 2011, three family trusts (the "Mr. Zhang's Family Trusts") were established by Mr. Zhang (as settlor) to hold indirect interests in the Shares for the benefit of his family members, with Standard Chartered Trust (Cayman) Limited acting as the trustee. Each of Mr. Zhang's Family Trusts holds 100% of the equity interest in the respective BVI entities, which in turn holds equity interest in our Company.

As of the date of this prospectus, the Shares held under each Mr. Zhang's Family Trust represents approximately 2%, 2% and 5.33% of the share capital of the Company, or approximately 1.5%, 1.5% and 4% of the share capital of the Company after completion of the Global Offering (assuming the Over-Allotment is not exercised).

Under the Mr. Zhang's Family Trusts, beneficiaries have attributable interests in Shares which are calculated based on their interests as beneficiaries in the trust assets of Mr. Zhang's Family Trusts.

G. MR. ZHANG'S TRUST

In March 2011, Mr. Zhang's Trust was established by Mr. Zhang (as settlor) to hold indirect interests in the Shares for the benefit of Mr. Zhang, with Standard Chartered Trust (Cayman) Limited acting as the trustee. Mr. Zhang's Trust holds 100% of the equity interest in Hilong Group Limited, which in turn holds equity interest in our Company.

As of the date of this prospectus, the Shares held under Mr. Zhang's Trust represents approximately 86% of the share capital of the Company, or approximately 64.5% of the share capital of the Company after completion of the Global Offering (assuming the Over-Allotment is not exercised).

H. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in the sub-section headed

“Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any claim to which any member of our Company may be subject and payable on or before the date when the Global Offering becomes unconditional.

2. Litigation

As of the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

3. Preliminary expenses

The preliminary expenses of the Company are approximately US\$4,100 and was paid by the Company.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the Pre-IPO Share Option Scheme and the exercise of the Over-allotment Option).

5. No material adverse change

The Directors believe that there has been no material adverse change in our Group’s financial or trading position or prospects since December 31, 2010 (being the date on which the latest audited combined financial statements of our Group was made up).

6. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

7. Shares will be eligible for CCASS

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options to be granted under the Pre-IPO Share Option Scheme.

All necessary arrangements have been made to enable the Shares to be admitted into the CCASS for clearing and settlement, which is established and operated by the HKSCC.

8. Compliance Adviser

Our Company will appoint Guotai Junan Capital Limited as the compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules.

9. Qualification of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

<u>Name of Expert</u>	<u>Qualification</u>
Morgan Stanley Asia Limited	Licensed to conduct Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance), Type 7 (Providing Automated Trading Services) and Type 9 (Asset Management) of the regulated activities under the SFO, acting as the Sole Sponsor of the Global Offering
PricewaterhouseCoopers	Certified public accountants
King & Wood	Qualified PRC lawyers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Perez Bustamane & Ponce	Qualified Ecuador lawyers
Salans LLP	Qualified Kazakhstan lawyers
Jones Lang LaSalle Sallmanns Limited	Property valuer
Spears and Associates, Inc.	Industry consultant

10. Consents of experts

Each of Morgan Stanley Asia Limited, PricewaterhouseCoopers, King & Wood, Conyers Dill & Pearman, Perez Bustamane & Ponce, Salans LLP, Jones Lang LaSalle Sallmanns Limited and Spears and Associates, Inc. has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/ or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

11. Particulars of Selling Shareholder

Particulars of the Selling Shareholder are set out as follows:

<u>Name of Selling Shareholder</u>	<u>Description</u>	<u>Registered Office</u>	<u>No. of Shares Offered in case of the exercise of Over-allotment Option</u>
Hilong Group Limited	A limited liability company incorporated in the British Virgin Islands	Romasco Place, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110	60,000,000

12. Miscellaneous

Save as disclosed in this Appendix and the section headed “History and Reorganization” in this prospectus, within the two years immediately preceding the date of this prospectus:

- (i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
- (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;

Save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries that have been issued or agreed to be issued.

None of the persons named in the sub-paragraph headed “Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group;

There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus;

The Hong Kong register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Company’s Hong Kong Share Registrar in Hong Kong and may not be lodged in the Cayman Islands.

No company within the Group is presently listed on any stock exchange or traded on any trading system;

The Directors have been advised that, Cayman Law does not prohibit the use of a Chinese name or an abbreviation thereof by the Company for the purposes of identification only on the market floor and on the computer screen at the Stock Exchange for trading purposes; and

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

14. Promoters

Our Company has no promoter for the purposes of the Listing Rules.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus registered by the Registrar of Companies in Hong Kong were (i) copies of the WHITE, YELLOW and GREEN Application Forms, (ii) the written consents referred to in paragraph headed “Consents of experts” of Appendix VI to this prospectus, (iii) copies of each of the material contracts referred to in paragraph headed “Summary of material contracts” of Appendix VI to this prospectus; and (iv) the list containing the particulars of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Skadden, Arps, Slate, Meagher & Flom, 42nd Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of the prospectus:

- (1) the Memorandum of Association and the Articles of Association;
- (2) the Accountant’s Report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (3) the report in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (4) the letter, summary of valuation and valuation certificates relating to our property interests prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix III to this prospectus;
- (5) the Pre-IPO Share Option Scheme;
- (6) the material contracts referred to in paragraph headed “Summary of material contracts” of Appendix VI to this prospectus;
- (7) the written consents referred to in paragraph headed “Consents of experts” of Appendix VI to this prospectus;
- (8) the PRC legal opinion issued by King & Wood, our legal advisers on PRC law, in respect of, inter alia, general matters, property interests and taxation matters of our Company and our subsidiaries;
- (9) the Ecuador legal opinion issued by Perez Bustamane & Ponce;
- (10) the Kazakhstan legal opinion issued by Salans LLP;
- (11) the independent industry report issued by Spears, the texts of which are set out in Appendix IV to this prospectus;
- (12) the service contracts referred to in “C. Further Information about Directors and substantial shareholders—Particulars of Directors’ service contracts” in Appendix VI to this prospectus;
- (13) the letter prepared by Conyers Dill & Pearman summarizing certain aspects of Companies Law referred to in Appendix V to this prospectus;
- (14) the Companies Law;
- (15) the full list of all the grantees of the Pre-IPO Share Option Scheme, containing all the details in respect of each option required under paragraph 10 of the Third Schedule of the Companies Ordinance and Rule 17.02(1)(b) and paragraph 27 of part A of Appendix 1 to the Listing Rules; and
- (16) the list containing the particulars of the Selling Shareholder as set out in the paragraph headed “11. Particulars of the Selling Shareholder” in Appendix VI to this prospectus.



海隆控股有限公司*
Hilong Holding Limited