海隆控股有限公司*

Hilong Holding Limited

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

Annual Report 2010

*For identification purpose only

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Chairman's Statement

To the shareholders

I am pleased to present the first annual report of Hilong Holding Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended December 31, 2010 for your review.

INTRODUCTION OF THE COMPANY

We are a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and oil country tubular goods ("OCTG") coatings and oilfield services. We have attained our leading market positions by focusing on building capabilities in key components of the drilling equipment value chain: steel pipes, drill pipe products, coating materials and services as well as hardbanding materials and services.

YEAR UNDER REVIEW

In 2010, our revenue increased by RMB349.8 million, 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.

We are pleased that the Group's net profit increased by more than 100% in 2010 when compared with the net profit of 2009. Our net profit increased from RMB110.0 million in 2009 to RMB229.9 million in 2010. The reasons of the increase are stated in details in the section headed "Management Discussion and Analysis".

PROSPECTS

We were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on April 21, 2011 (the "Listing Date"). The Company seeks to continue its success by using its strengths, by maintaining:

- market leadership in key oilfield equipment products and services;

- established relationship 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.

We will also strive to:

- 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.

APPRECIATION

I would like to take this opportunity to express our most sincere thanks to the board of directors and our management and staff.

Zhang Jun
Chairman

Beijing, the PRC
April 29, 2011

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jun (張軍)
(Chairman and Chief Executive Officer)
Ms. Zhang Shuman (張姝嫚)
(Chief Strategy Officer)
Mr. Ji Min (紀敏)
(Chief Financial Officer)

Non-executive Directors

Datuk Syed Hisham Bin Syed Wazir
Mr. Yuan Pengbin (袁鵬斌)
Mr. Wang Tao (汪濤)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Liu Qihua (劉奇華)
Mr. Lee Siang Chin

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Zhang Shuman (張姝嫚)

AUDIT COMMITTEE

Mr. Lee Siang Chin *(Chairman)*
Mr. Wang Tao (汪濤)
Mr. Wang Tao (王濤)

REMUNERATION COMMITTEE

Mr. Yuan Pengbin (袁鵬斌) *(Chairman)*
Mr. Wang Tao (王濤)
Mr. Lee Siang Chin

NOMINATION COMMITTEE

Ms. Zhang Shuman (張姝嫚) *(Chairlady)*
Mr. Wang Tao (王濤)
Mr. Liu Qihua (劉奇華)

JOINT COMPANY SECRETARIES

Ms. Zhang Shuman (張姝嫚)
Ms. Cheng Pik Yuk (鄭碧玉)

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Guotai Junan Capital Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

China Bank of Construction, Yuepu Branch
No. 8, Baoquan Road, Yuepu town
Baoshan district, Shanghai, PRC

Bank of China, Baoshan Branch
No. 1008, Baoyang Road
Baoshan district, Shanghai, PRC

China Merchants Bank, Baoshan Branch
No. 1577, Mudanjiang Road
Baoshan district, Shanghai, PRC

STOCK CODE

The Stock Exchange of Hong Kong Limited:
1623

WEBSITE AND CONTACT

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Management Discussion and Analysis

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 oil country tubular goods ("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 China National Petroleum Corporation ("CNPC") and Sinopec Group Company ("Sinopec"). We are also a qualified supplier to many of the major international oil and gas companies, including Schlumberger, Gazprom and Weatherford. In 2009 and 2010, to our knowledge of our customers' information, sales to CNPC and its affiliates accounted for 28.6% and 25.5% of our revenue, respectively; sales to Sinopec and its affiliates accounted for 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 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.

In 2009 and 2010, our revenue totaled RMB1,006.7 million and RMB1,356.5 million, respectively. In 2009 and 2010, our net profit totaled RMB110.0 million and RMB229.9 million, respectively.

OPERATING RESULTS

The table below presents selected financial information of the Group for the years indicated:

	For the year ended December 31,			
	2010		2009	
	RMB	%	RMB	%
	(In thousands, except for percentages)			
Revenue	1,356,462	100.0	1,006,656	100.0
Cost of sales/services	(799,856)	(59.0)	(621,083)	(61.7)
Gross profit	556,606	41.0	385,573	38.3
Selling and marketing expenses	(79,026)	(5.8)	(82,684)	(8.2)
Administrative expenses	(172,210)	(12.7)	(138,103)	(13.7)
Other gains — net	15,085	1.1	2,760	0.2
Operating profit	320,455	23.6	167,546	16.6
Finance income	700	0.1	1,743	0.2
Finance costs	(30,476)	(2.2)	(19,699)	(2.0)
Share of results of associates	1,258	0.1	(353)	(0.0)
Share of profit of jointly controlled entities	(16,756)	(1.2)	(13,532)	(1.3)
Profit before income tax	275,181	20.3	135,705	13.5
Income tax expense	(45,275)	(3.3)	(25,689)	(2.6)
Profit for the year	229,906	16.9	110,016	10.9
Profit attributable to:				
Equity holders of the Company	178,369	N/A	60,627	N/A

Management Discussion and Analysis

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

	For the year ended December 31,			
	2010		2009	
	RMB	%	RMB	%
	(In thousands, except for percentages)			
Drill pipes and related products				
Drill pipes	633,797	46.7	414,637	41.1
Hardbanding	25,263	1.9	13,730	1.4
Equipment	970	0.1	34,093	3.4
Others	53,038	3.9	56,126	5.6
Subtotal	713,068	52.6	518,586	51.5
Coating materials and services				
Oil and gas line pipe coating	242,707	17.9	334,675	33.2
Drill pipe coating	78,740	5.8	80,618	8.0
Tubing casing coating	50,409	3.7	19,733	2.0
Subtotal	371,856	27.4	435,026	43.2
Oilfield services	271,538	20.0	53,044	5.3
Total revenue	1,356,462	100.0	1,006,656	100.0

The following table sets forth our revenue by geographical location of our customers for the years indicated:

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

COMPARISON AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION FOR THE YEAR ENDED December 31, 2010

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.

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 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.

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.

Management Discussion and Analysis

Liquidity and Capital Resources

The following table sets forth a summary of our cash flows for the periods indicated:

	For the year ended December 31,	
	2010	2009
	(In thousands of RMB)	
Net cash from operating activities	**163,341**	60,742
Net cash used in investing activities	**(165,862)**	(199,899)
Net cash from financing activities	**108,391**	61,145
Net increase/(decrease) in cash and cash equivalents	**105,870**	(78,012)
Cash and cash equivalents at beginning of year	**141,603**	220,468
Cash and cash equivalents at end of year	**246,936**	141,603

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.

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.

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.

Capital Expenditure

Our capital expenditures were RMB196.1 million and RMB144.7 million in 2009 and 2010, respectively. 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 mainly denominated in RMB. The following table sets forth components of our indebtedness as of the dates indicated:

	As of December 31,		As of February 28,
	2009	2010	2011
	(In thousands of RMB)		
Non-current			
Bank borrowing — unsecured	10,600	**5,900**	**—**
Related party borrowing	11,796	**10,565**	**10,450**
Less: Current portion of non-current borrowing	(10,318)	**(15,265)**	**(10,450)**
Current			
Bank borrowings — secured	264,000	**401,758**	**400,654**
Bank borrowing — unsecured	152,000	**217,000**	**197,900**
Series A convertible preferred shares	—	**169,401**	**171,538**
Current portion of non-current borrowing	10,318	**15,265**	**10,450**
Total	438,396	**804,624**	**780,542**

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,	
	2010	2009
	(In thousands of RMB)	
No later than 1 year	**4,176**	3,544
Later than 1 year and no later than 3 years	**5,249**	3,789
Later than 3 years	**10,020**	11,723
Total	**19,445**	19,056

As of December 31, 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 annual report, as of April 26, 2011 ("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, debentures, mortgages, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

Our gearing ratio (calculated as net debt divided by total capital) as of December 31, 2009 and 2010 was 22.66% and 38.11%, respectively. For details on how the gearing ratio is calculated, please refer to Note 4.2 to the combined financial statements in this annual report.

Capital Commitments

Our capital commitments as of December 31, 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,	
	2010	2009
	(in thousands of RMB)	
Property, plant and equipment	**65,918**	143,109

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. In 2009 and 2010, our revenue denominated in U.S. dollar represented 12.2% and 36.0%, respectively, of our total revenue.

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.

Credit Risk

As of December 31, 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 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.

Valuation of Properties

For the purpose of listing of the Company's shares on the main board of the Stock Exchange in April 2011, a valuation was conducted on the property interests held by the Group. However, those property interests were still carried at historical costs less accumulated depreciation and impairment, if any, on the Group's financial statements.

By reference to the property valuation set out in Appendix III to the prospectus of the Company dated April 11, 2011, a revaluation surplus of approximately RMB54.4 million was recorded in respect of the property interests of the Group as at February 28, 2011. Were the property stated at that valuation the depreciation charge per year would have increased by approximately RMB3.2 million.

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.

Name	Age	Management Position	Date of Appointment
ZHANG Jun (張軍)	43	Chairman, executive Director and chief executive officer	December 2, 2010
ZHANG Shuman (張姝嫚)	37	Executive Director and chief strategy officer	December 2, 2010
JI Min (紀敏)	36	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)	52	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 executive 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 (張姝嫚), aged 37, is our executive Director and chief strategy officer. Ms. Zhang was appointed as an executive 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 Ltd. 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) 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 Jun.

Mr. JI Min (紀敏), aged 36, 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 52, 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).

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 (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:

Company	Position held	Listing status	Year of Appointment
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 Pted. 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.

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.

SENIOR MANAGEMENT

For biographies of Mr. ZHANG Jun, Ms. ZHANG Shuman and Mr. JI Min, see "— BOARD OF DIRECTORS — Executive Directors". Other 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 in the department of steel pipe manufacturing of 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 in 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 (中南工業大學) in 1987, a master's degree in engineering from Central South University of Technology 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, 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 the Company on February 10, 2011.

Ms. ZHANG Shuman (張姝嫚), aged 37, was appointed as a joint company secretary of the Company on February 10, 2011. 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. For further details regarding Ms. Zhang's experience, see "— BOARD OF DIRECTORS — Executive Directors" above.

Corporate Governance Report

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended December 31, 2010 (the "Review Period").

The Company has adopted the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance. As the Company was not yet listed on the Stock Exchange during the Review Period, the CG Code was not applicable to the Company for the whole Review Period and the period before the listing of the Company on the Stock Exchange on April 21, 2011 (the "Listing Date"). The manner in which the principles and code provisions in the CG Code are applied and implemented since the Listing Date and up to the date of this annual report (the "Period") is explained in this Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company acknowledges the important role of its Board in providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations.

In the opinion of the directors, the Company has complied with the applicable code provisions as set out in the CG Code throughout the Period save for the deviation from code provision A.2.1 which deviation is explained in the relevant paragraph of this report.

The Company will, from time to time, review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Company and its members companies (the "Group"). The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

The Board currently comprises nine members, consisting of three executive directors, three non-executive directors and three independent non-executive directors.

The Company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its membership comprising independent non-executive directors.

The Board of the Company comprises the following directors:

Executive directors:
ZHANG Jun *(Chairman and chief executive officer)*
ZHANG Shuman *(Chief strategy officer)*
JI Min *(Chief financial officer)*

Non-executive directors:
Datuk SYED HISHAM Bin Syed Wazir
YUAN Pengbin
WANG Tao (汪濤)

Independent non-executive directors:
WANG Tao (王濤)
LIU Qihua
LEE Siang Chin

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Mr. Zhang Jun is the brother of Ms. Zhang Shuman.

Throughout the Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All directors, including non-executive directors and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Zhang Jun currently holds the offices of chairman and chief executive officer of the Company. The Board considers that the current structure of vesting the roles of chairman and chief executive officer in the same person does not impair the balance of power and authority between the Board and the management of the Company but provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board shall review its structure from time to time to ensure appropriate and timely action to meet changing circumstances.

Appointment and Re-election of Directors

Each of the directors (including executive and non-executive directors) of the Company is engaged on a service contract (in the case of executive director) and on a letter of appointment (in the case of non-executive director and independent non-executive director) for an initial term of three years. The appointment may be terminated by not less than one month's written notice.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's articles of association. Pursuant to the Company's articles of association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy shall hold office until the first general meeting of the Company after his appointment and be eligible for re-election thereat and any director appointed as an addition to the Board shall hold office until the next following annual general meeting of the Company after his appointment and be eligible for re-election thereat. Accordingly, all directors shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company pursuant to the Company's articles of association. Biographical details of the retiring directors seeking for re-election are included in the Company's circular in respect of the forthcoming annual general meeting to be sent to the shareholders of the Company. The Board recommended the re-appointment of the directors standing for re-election at the forthcoming annual general meeting of the Company.

Nomination Committee

The Nomination Committee was established on February 28, 2011 with written terms of reference in compliance with the CG Code and comprises three members, namely Zhang Shuman (Chairlady of the Committee), Wang Tao (王濤) and Liu Qihua, the majority of them are independent non-executive directors. The terms of reference is available to shareholders upon request.

The primary duties of the Nomination Committee include reviewing the Board structure and composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive directors based on criteria such as integrity, accomplishment, experience, professional and educational background and time commitments. An external recruitment agency may be engaged to carry out the recruitment and selection process if necessary.

No Nomination Committee meeting was held since its establishment up to the date of this annual report.

Induction and Continuing Development of Directors

Each newly appointed director receives comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to update themselves on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged where necessary.

Board Meetings

Board Practices and Conduct of Meetings

Directors resolutions were passed by way of written resolutions or by physical meetings during the Review Period. Since the adoption of the CG Code, two full board meetings have been held and all directors participated in person or by phone in all of the board meetings. After the Company's listing on April 21, 2011, the Company expects to hold not less than four board meetings each year going forward.

The Company has to comply with the CG Code provisions with regard to the conduct of meetings, have annual meeting schedules and draft agenda of each meeting made available to directors in advance and serve notice of regular Board meetings to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is required to be given.

Board papers together with all appropriate, complete and reliable information have to be sent to all directors at least 3 days before each Board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management where necessary.

The Company's articles of association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the Period.

DELEGATION OF MANAGEMENT FUNCTIONS

The Board reserves for its decision all major matters of the Company including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The Remuneration Committee was established on February 28, 2011 with written terms of reference in compliance with the CG Code and comprises three members, namely Yuan Pengbin (chairman of the Committee), Wang Tao (王濤) and Lee Siang Chin, the majority of them are independent non-executive directors. The terms of reference is available to shareholders upon request.

The primary functions of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

No Remuneration Committee meeting was held since its establishment up to the date of this annual report.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2010.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The reporting responsibility of the external auditor of the Company on the combined financial statements of the Group are set out in the Independent Auditor's Reports in this annual report.

Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis. The Group has developed its systems of internal control and risk management. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

The annul review of its internal control system has not yet been conducted. The annual review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget will be conducted as soon as possible when appropriate.

Audit Committee

The Audit Committee was established on February 28, 2011 with written terms of reference in compliance with the CG Code and comprises three members, namely Lee Siang Chin (Chairman of the Committee), Wang Tao (汪濤) and Wang Tao (王濤), with independent non-executive directors in majority (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). The terms of reference is available to shareholders upon request.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditors before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

No Audit Committee meeting was held since its establishment up to the date of this annual report.

AUDITOR'S REMUNERATION

For the year ended December 31, 2010, the remuneration paid/payable to the Company's auditor, PricewaterhouseCoopers, amounted to approximately RMB1.5 million in respect of the annual audit service and amounted to approximately RMB4.2 million in respect of the service for acting as the reporting accountant in relation to the Listing of the Company, respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution would be proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

Report of the Directors

The Directors of the Company (the "Directors") are pleased to present the first annual report of the Company with the audited combined financial statements of the Group for the year ended December 31, 2010.

REORGANISATION

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.

Pursuant to a group reorganisation (the "Reorganisation"), which was completed on March 2, 2011 in preparation for listing the Company's shares on the Stock Exchange, the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated April 11, 2011 (the "Prospectus").

PRINCIPAL ACTIVITIES

The Group is an integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and oil country tubular goods coatings and oilfield services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 33 to the combined financial statements.

RESULTS

The results of the Group for the year ended December 31, 2010 are set out in the combined financial statements of this annual report.

RESERVES

Details of movement in the reserves of the Group for the year ended December 31, 2010 are set out in note 17 to the combined financial statements and in the combined statement of changes in equity, respectively.

As at December 31, 2010, there was no reserve of the Company available for distribution (2009: nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest and five largest customers were 10.3% and 32.7% of the Group's total sales respectively (2009: 15.0% and 27.2%). The aggregate purchases attributable to the Group's five largest suppliers were 29.5% of the Group's total purchases during the year under review (2009: 39.1%).

During the year, none of the Directors, their associates or any shareholders (who to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) had any interest in any of the five largest customers or suppliers of the Group.

BANK AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2010 are set out in note 18 to the combined financial statements.

DONATIONS

Charitable and other donations made by the Group during the year under review amounted to RMB148,000 (2009: RMB110,000).

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 7 to the combined financial statements.

SHARE CAPITAL

Details of and reasons for movements in the share capital of the Company during the year under review are set out in note 16 to the combined financial statements.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 184 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association (the "Articles") or the laws of Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors
Mr. Zhang Jun (張軍)
Ms. Zhang Shuman (張姝嫚)
Mr. Ji Min (紀敏)

Non-executive Directors
Datuk Syed Hisham Bin Syed Wazir
Mr. Yuan Pengbin (袁鵬斌)
Mr. Wang Tao (汪濤)

Independent non-executive Directors
Mr. Wang Tao (王濤)
Mr. Liu Qihua (劉奇華)
Mr. Lee Siang Chin

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

Pursuant to article 83(3) of the Company's Articles, Mr. Zhang Jun, Ms. Zhang Shuman, Mr. Ji Min, Mr. Yuan Pengbin, Mr. Wang Tao (汪濤), Mr. Wang Tao (王濤), Mr. Liu Qihua and Mr. Lee Siang Chin will retire as Directors at the forthcoming annual general meeting ("AGM") of the Company, whereas Datuk Syed Hisham Bin Syed Wazir will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with article 84(1) of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from December 2, 2010. Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from December 2, 2010, except Datuk Syed Hisham Bin Syed Wazir, who has entered into a letter of appointment with the Company for a term of three years commencing from February 28, 2011. None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualifications and competence.

The Remuneration Committee considers and recommends to the Board on the remuneration and other benefits paid by the Company to the Directors by reference to the Company's operating results, individual performance and comparable market rates. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate.

As at December 31, 2010, the Group had an aggregate of 1,314 full-time employees. Employee costs excluding directors' amendments totalled RMB112.1 million for the year of 2010. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

The Company has also ratified and adopted a Pre-IPO share option scheme on February 28, 2011. The Pre-IPO share option scheme commenced on January 1, 2011. During the year, options to subscribe for an aggregate of 46,322,000 shares have been granted.

Details of Directors' remuneration are set out in note 23 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in "Continuing Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PRE-IPO SHARE OPTION SCHEME

The following is a summary of the principal terms of the Pre-IPO share option scheme of the Company 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 the Group. The Pre-IPO share option scheme will provide the Eligible Participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

1. motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

2. attract and retain or otherwise maintain relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

B. Who may join

The eligible participants (collectively the "Eligible Participants") under the Pre-IPO share option scheme include the following:

1. the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company;

2. the full-time employees of any of the subsidiaries of the level of manager or above;

3. technical experts that have contributed or will contribute to the Company and/or any of its subsidiaries; and

4. any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Company and/or any of the subsidiaries.

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

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 the Company immediately upon completion of the Global Offering.

D. Time of exercise of option

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.

E. Price of shares

The subscription price of a share in respect of any particular option granted under the Pre-IPO share option scheme is the offer price of the Company's IPO.

F. Movements of the Pre-IPO share option scheme of the Company

As of the date of this annual report, 46,322,000 share options were granted to directors and employees with an exercise price equivalent to the offer price of the Company's IPO, i.e. HK$2.60. There has been no movement of the Pre-IPO share option scheme since then up to the date of this annual report.

DISCLOSURE OF INTERESTS IN SECURITIES

A. Directors' interests in the shares of the Company

As at the date of this annual report, the interests and/or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 (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 the 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 positions in the shares

Name of Director	Nature of interest	No. of shares of interest	Approximate percentage of shareholding
Mr. Zhang Jun	Settlor and Beneficiary of Mr. Zhang's Trust	1,031,959,200[(1)]	64.5%
	Settlor of three Mr. Zhang's Family Trusts	112,000,800[(2)]	7.0%
	Controlled Corporation	1,031,959,200[(1)]	64.5%

Notes:

(1) The shares are held by Hilong Group Limited, the entire share capital of which is held by Standard Chartered Trust (Cayman) Limited as trustee of Mr. Zhang's Trust. Mr. Zhang is the settlor and beneficiary of Mr. Zhang's Trust.

(2) The shares are held by Younger Investment Limited, LongZhi Investment Limited and North Violet Investment Limited, the entire share capital of which is held by Standard Chartered Trust (Cayman) Limited as trustee of Mr. Zhang's Family Trusts. Mr. Zhang is the settlor of those three trusts and the beneficiaries are his family members.

Long positions in underlying shares of the Company

Name of Director	Number of underlying shares under the Pre-IPO share option scheme	Approximate percentage of shareholding upon the exercise of options
Zhang Jun	600,000	0.0364%
Zhang Shuman	600,000	0.0364%
Ji Min	800,000	0.0486%
Yuan Pengbin	2,150,000	0.1306%
Wang Tao (汪濤)	2,150,000	0.1306%

B. Substantial shareholders' interests in the shares of the Company

As at the date of this report, so far as the Directors are aware, the following persons (not being a Director or a chief executive of the Company) will have an interest or short position in the shares or underlying shares which would fall to be disclosed to the 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 5% or more of the Company's issued share capital:

Long position in the shares

Name of substantial shareholder	Nature of interest	No. of shares of interest	Approximate percentage of shareholding
Hilong Group Limited	Beneficial owner	1,031,959,200[(1)]	64.5%
Standard Chartered Trust (Cayman) Limited	Trustee	1,143,960,000[(2)]	71.5%

Notes:

(1) The shares are held by Hilong Group Limited, the entire share capital of which is held by Standard Chartered Trust (Cayman) Limited as trustee of Mr. Zhang's Trust. Mr. Zhang is the settlor and beneficiary of Mr. Zhang's Trust.

(2) The shares are held by Younger Investment Limited, LongZhi Investment Limited and North Violet Investment Limited, the entire share capital of which is held by Standard Chartered Trust (Cayman) Limited as trustee of Mr. Zhang's Family Trusts. Mr. Zhang is the settlor of those three trusts and the beneficiaries are his family members.

CONTINUING CONNECTED TRANSACTIONS

Exempt continuing connected transactions

A. 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 the Group, and is therefore a connected person of the 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 therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon the Company's listing on the Stock Exchange ("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.

B. 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 the 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 the Company. The transactions under the Technology Consultancy Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

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.

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

On February 28, 2011, Hilong Oil Pipe Co., Ltd. ("Hilong Oil Pipe"), 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 Jun (張軍), the controlling shareholder and Director of the Company, and his associates, hold the entire share capital in Hilong Oil Pipe. As such, Hilong Oil Pipe is an associate of Mr. Zhang and a connected person of the Company. The lease under the Tenancy Agreement therefore constitutes 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 are exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

D. 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 (張軍), the controlling shareholder and Director of the Company, owns 95.65% of the interest in 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"), 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 therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

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 RMB8 million, RMB12 million and RMB12 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 RMB3.5 million to RMB4.0 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 are exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

E. 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. (海隆石油技術服務公司) ("Hailong Oil Service"), the Company's 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 Jun (張軍), the controlling shareholder and Director of the Company, 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 the Company. The lease under the Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is RMB7.9 million. The proposed annual caps for the lease under the Tenancy Agreement are RMB7.9 million, RMB7.9 million and RMB7.9 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 Tenancy Agreement are exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Waivers from announcement requirements for transactions C, D and E above have been obtained from the Stock Exchange. Please refer to the prospectus dated April 11, 2011 for details of the waivers. We will inform the Stock Exchange and make necessary announcements and/or obtain shareholders' approval to ensure compliance with Chapter 14A of the Listing Rules when the waivers expire, or when the annual caps of the continuing connected transactions are exceeded.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to enhancing investors' confidence to the Company and the Company's accountability. The Company therefore strives to attain and maintain effective corporate governance practices and procedures. The Company has adopted the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance on February 28, 2011. As the Company was not yet listed on the Stock Exchange during the year, the CG Code was not applicable to the Company for the year and the period before the Listing Date. The manner in which the principles and code provisions in the CG Code are applied and implemented is explained in the Corporate Governance Report in this annual report.

AUDIT COMMITTEE

The Company has established an Audit Committee on February 28, 2011 in compliance with Rule 3.21 of Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises one non-executive Director and two independent non-executive Directors.

The Audit Committee has reviewed the annual results for the year ended December 31, 2010 with the Company's management.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, from the Listing Date and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

As the Company's shares were not listed during the year under review, the issue regarding purchase, sale or redemption by the Company, or any of its subsidiaries of its listed securities is not applicable to the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors has confirmed that he/she is neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with the Group's business.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

Each of Mr. Zhang Jun, Hilong Group Limited and Standard Chartered Trust (Cayman) Limited, being controlling shareholders of the Company, has entered into a Non-competition Deed, details as described in the Prospectus, with the Company on March 3, 2011.

AUDITOR

The financial statements for the year ended December 31, 2010 have been audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming annual general meeting for the re-appointment of PricewaterhouseCoopers as the auditor of the Company.

In the past three years, there is no change in auditors.

On behalf of the Board

Zhang Jun
Chairman

Hong Kong, April 29, 2011

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of Hilong Holding Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the combined financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 148, which comprise the combined balance sheet as at December 31, 2010, and the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE COMBINED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of combined financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these combined financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of combined financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the combined financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 29, 2011

Combined Balance Sheet

As at December 31, 2010

	Note	As at December 31, 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**733,292**	608,014
Lease prepayments	8	**55,788**	45,691
Intangible assets	9	**11,780**	12,030
Investments in associates	10	**78,811**	63,782
Investments in jointly controlled entities	11	**6,279**	15,509
Deferred income tax assets	12	**37,551**	24,265
Other long-term assets		**219**	625
		923,720	769,916
Current assets			
Inventories	13	**365,522**	333,182
Trade and other receivables	14	**1,179,748**	919,166
Restricted cash	15	**52,570**	23,997
Cash and cash equivalents	15	**246,936**	141,603
		1,844,776	1,417,948
Total assets		**2,768,496**	2,187,864
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	16	**811**	—
Other reserve	17	**(82,328)**	211,007
Retained earnings		**776,116**	619,343
Currency translation differences		**(11,803)**	(9,002)
		682,796	821,348
Non-controlling interests		**222,813**	191,839
Total equity		**905,609**	1,013,187

The notes on page 58 to 148 are an integral part of these combined financial statements.

Combined Balance Sheet

As at December 31, 2010

	Note	As at December 31, 2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	**1,200**	12,078
Deferred income tax liabilities	12	**77,061**	60,991
Deferred revenue	19	**13,650**	—
		91,911	73,069
Current liabilities			
Deferred revenue	19	**405**	5,574
Trade and other payables	20	**953,422**	662,784
Current income tax liabilities		**13,592**	6,932
Derivative financial instruments	18(b)	**133**	—
Borrowings	18	**803,424**	426,318
		1,770,976	1,101,608
Total liabilities		**1,862,887**	1,174,677
Total equity and liabilities		**2,768,496**	2,187,864
Net current assets		**73,800**	316,340
Total assets less current liabilities		**997,520**	1,086,256

The notes on page 58 to 148 are an integral part of these combined financial statements.

The financial statements on pages 51 to 148 were approved by the Board of Directors on April 29, 2011 and were signed on its behalf.

Zhang Shuman
Director

Ji Min
Director

Combined Income Statement

For the year ended December 31, 2010

		Year ended December 31,	
		2010	2009
	Note	**RMB'000**	RMB'000
Revenue	6(a)	**1,356,462**	1,006,656
Cost of sales	21	**(799,856)**	(621,083)
Gross profit		**556,606**	385,573
Selling and marketing expenses	21	**(79,026)**	(82,684)
Administrative expenses	21	**(172,210)**	(138,103)
Other gains — net	24	**15,085**	2,760
Operating profit		**320,455**	167,546
Finance income	25	**700**	1,743
Finance costs	25	**(30,476)**	(19,699)
Finance costs — net		**(29,776)**	(17,956)
Share of results of:			
— Associates	10	**1,258**	(353)
— Jointly controlled entities	11	**(16,756)**	(13,532)
Profit before income tax		**275,181**	135,705
Income tax expense	26	**(45,275)**	(25,689)
Profit for the year		**229,906**	110,016
Profit attributable to:			
Equity holders of the Company		**178,369**	60,627
Non-controlling interests		**51,537**	49,389
		229,906	110,016
Earnings per share from operations attributable to the equity holders of the Company during the year (expressed in RMB per share)			
Basic earnings per share	27	**0.1559**	0.0530
Diluted earnings per share	27	**0.1573**	0.0530

The notes on page 58 to 148 are an integral part of these combined financial statements.

Dividends	28	**—**	10,000

Combined Statement of Comprehensive Income

For the year ended December 31, 2010

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Profit for the year	**229,906**	110,016
Other comprehensive income:		
Currency translation differences	**(5,115)**	2,210
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	**2,314**	(11,334)
Other comprehensive income for the year, net of tax	**(2,849)**	(9,124)
Total comprehensive income for the year	**227,057**	100,892
Attributable to:		
Equity holders of the Company	**175,520**	51,503
Non-controlling interests	**51,537**	49,389
	227,057	100,892

The notes on page 58 to 148 are an integral part of these combined financial statements.

Combined Statement of Changes in Equity

For the year ended December 31, 2010

	Note	Capital and reserves attributable to equity holders						
		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, 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	17(1)	–	10,651	(10,651)	–	–	–	–
Transactions with owners								
Dividends declared by certain subsidiaries now comprising the Group to the then equity holders		–	–	(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 holders	17(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 Statement of Changes in Equity

For the year ended December 31, 2010

	Note	Capital and reserves attributable to equity holders						
		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	31	–	(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	17(1)	–	11,596	(11,596)	–	–	–	–
Transactions with owners								
Share capital issued and paid	16	811	–	–	–	811	–	811
Dividends declared by certain subsidiaries now comprising the Group to the then equity holders	28	–	–	(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	31	–	–	–	–	–	(4,517)	(4,517)
Capital increase to subsidiaries by their then equity holders	17(2)	–	6,044	–	–	6,044	–	6,044
Consideration paid/payable to the then equity holders for acquisition or disposal of subsidiaries under common control	17(2)	–	(310,927)	–	–	(310,927)	–	(310,927)
As at December 31, 2010		811	(82,328)	776,116	(11,803)	682,796	222,813	905,609

The notes on page 58 to 148 are an integral part of these combined financial statements.

Combined Cash Flow Statement

For the year ended December 31, 2010

		Year ended December 31,	
		2010	2009
	Note	RMB'000	RMB'000
Cash flow from operating activities			
Cash generated from operations	29(a)	223,822	107,583
Interest paid		(24,750)	(19,330)
Income tax paid		(35,731)	(27,511)
Net cash generated from operating activities		163,341	60,742
Cash flow from investing activities			
Proceeds from disposal of property, plant and equipment	29(b)	509	2,622
Disposal of a subsidiary	31	(100)	—
Investments in an associate		(4,500)	—
Investments in jointly controlled entities		(8,844)	(6,309)
Purchases of property, plant and equipment		(144,670)	(196,109)
Purchases of land use rights		(12,765)	—
Purchases of intangible assets		(16)	(103)
Dividends received		4,524	—
Net cash used in investing activities		(165,862)	(199,899)
Cash flows from financing activities			
Contributions to subsidiaries by their then equity owners		6,044	3,858
Capital contributions to the Company	16	811	—
Net cash outflow arising from consideration paid to the then equity holders for acquisition of subsidiaries under common control		(235,384)	—
The subsidiaries' non-controlling interests' contribution to these subsidiaries		9,951	6,240
Proceeds from borrowings		852,419	548,485
Repayments of borrowings		(490,792)	(422,250)
Dividends paid to the non-controlling interests of the subsidiaries		(27,828)	(11,417)
Dividends paid to the Controlling Shareholder		(1,830)	(63,771)
Security deposit paid for the bank borrowings		(5,000)	—
Net cash generated from financing activities		108,391	61,145
Net increase/(decrease) in cash and cash equivalents		105,870	(78,012)
Exchange losses on cash and cash equivalents		(537)	(853)
Cash and cash equivalents at beginning of the year		141,603	220,468
Cash and cash equivalents at end of the year		246,936	141,603

The notes on page 58 to 148 are an integral part of these combined financial statements.

Notes to the Combined Financial Statements

For the year ended December 31, 2010

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION

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 reorganization (the "Reorganization"), the business of the Group was owned and operated through two holding companies, Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. ("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 Mr. Zhang Jun ("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.

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.

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION (continued)

(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 RMB320,109,000.

Pursuant to the Reorganisation, which was completed on March 2, 2011, the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated April 11, 2011.

The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on April 21, 2011.

2 BASIS OF PRESENTATION

Although the Reorganisation was not completed until March 2, 2011, the directors of the Company consider that it is meaningful to present the combined financial position and results of operations of the Group for the year ended December 31, 2010, as 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. 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 have been presented as if the current group structure had been in existence from January 1, 2009, the beginning of the earliest period presented, 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 these combined financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

3.1 Basis of preparation

The combined financial statements have been prepared in accordance with the following accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and under the historical cost convention, as modified by the revaluation of derivative financial instruments which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise 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 these combined financial statements are disclosed in Note 5 below.

The following new/revised standards, amendments and interpretation of HKFRSs relevant to the Group are effective for annual periods beginning or after January 1, 2010. These have already been applied by the Group when it prepared its combined financial statements for the three years ended December 31, 2008, 2009 and 2010 for preparing for the Listing.

- HKFRS 3 (revised) "Business combination";
- HKFRS 5 (amendment) "Non-current assets held for sale and discontinued operations";
- HKAS 1 (amendment) "Presentation of financial statements";
- HKAS 17 (amendment) "Lease";
- HKAS 36 (amendment) "Impairment of assets";
- HK(IFRIC) 16 "Hedges of a net investment in a foreign operation";
- HK-Int 5 "Presentation of financial statements — Classification by the borrower of a term loan that contains a prepayment on demand clause"; and
- Second improvements to HKFRS (2009) issued in May 2009 by HKICPA.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of preparation (continued)

Certain new/revised standards, amendments and interpretations of HKFRSs have been published but are not yet effective for annual period beginning on January 1, 2010 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009 (mandatory for the periods beginning on or after January 1, 2011). It supersedes HKAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities. The Group will apply the revised standard from January 1, 2011. It is not expected to have significant impact on the Group's financial statements;

- HK(IFRIC) — Int 19, 'Extinguishing financial liabilities with equity instruments', effective July 1, 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from January 1, 2011. It is not expected to have significant impact on the Group's financial statements;

- HKFRS 9, 'Financial instruments', issued in November 2009 (effective from annual period beginning on or after January 1, 2013). This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The Group will apply this standard from January 1, 2013. It is not expected to have significant impact on the Group's financial statements; and

- Third improvements to HKFRS (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011. It is not expected to have significant impact on the Group's financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. 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 recognises any non-controlling interest in the acquiree either at fair value or 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Consolidation and combination (continued)

(b) Merger accounting for common control combination

The combined financial statements 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 holders 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Consolidation and combination (continued)

(c) Transaction with non-controlling interests (continued)

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Consolidation and combination (continued)

(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 (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 combined financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Foreign currency translation (continued)

(b) Transactions and balances (continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial 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:

	Years
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 capitalised 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial period.

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 14 and 15).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Financial assets (continued)

(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 labour, 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 to the combined income statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Borrowings and borrowing costs (continued)

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 capitalised 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 capitalised 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;

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

- 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Compound financial instruments

Compound financial instruments refer to the Series A convertible preferred shares issued by the Company (Note 18(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Current and deferred income tax (continued)

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 utilised.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement. 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Revenue recognition (continued)

(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 labour 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 for the year ended December 31, 2010 and 2009, 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, 2010, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the net profit for the year would have been RMB2,143,000 (2009: RMB3,053,000) higher/lower 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.

(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 18.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

As at December 31, 2010, if the interest rate on borrowings had been higher/lower by 5%, the net profit for the year would have been RMB1,068,000 (2009: RMB1,629,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables included in the combined financial statements 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.

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, 2010.

Counterparties	Rating	As at December 31, 2010 RMB'000	2009 RMB'000
Standard Chartered Bank	A+*	**133,069**	—
China Merchants Bank	BBB*	**33,035**	5,724
Bank of China	A-*	**30,438**	33,220
China Construction Bank	A-*	**22,574**	61,465
Bank of Beijing	BBB*	**21,641**	19,822
Bank of Agriculture	A1**	**12,542**	9,260
China Rural Commercial Bank	n.a.	**7,418**	3,498
Bank of Jiangsu	n.a.	**6,501**	297
Industrial & Commercial Bank of China	A-*	**5,354**	3,516
Bank of Communication	BBB+*	**3,940**	17,951

* The source of credit rating is from S&P.

** The source of credit rating is from Moody's.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

The directors of the Company do not expect any losses from non-performance by these counterparties.

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 14 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.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at December 31, 2010					
Borrowings	**806,753**	**1,200**	**–**	**–**	**807,953**
Interest payable on borrowing	**27,492**	**525**	**–**	**–**	**28,017**
Trade and other payables, except for the advance from customers	**857,338**	**–**	**–**	**–**	**857,338**
	1,691,583	**1,725**	**–**	**–**	**1,693,308**
As at December 31, 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
	1,043,212	12,652	1,725	–	1,057,589

4 FINANCIAL RISK MANAGEMENT (continued)

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 combined financial statements plus net debt. The Group aims to maintain the gearing ratio between 20% and 40%.

The gearing ratios as at December 31, 2010 and 2009 are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Total borrowings (Note 18)	**804,624**	438,396
Less: Cash and cash equivalents (Note 15)	**(246,936)**	(141,603)
Net debt	**557,688**	296,793
Total equity	**905,609**	1,013,187
Total capital	**1,463,297**	1,309,980
Gearing ratio	**38.11%**	22.66%

The increase in the gearing ratio during the year ended December 31, 2010 is primarily resulted from the significant increase in the balance of borrowings.

4 FINANCIAL RISK MANAGEMENT (continued)

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 18(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 14. 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 in 2009. 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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Impairment for receivables (continued)

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 profits of associates and share of profits of jointly controlled entities, which is consistent with that in the combined financial statements.

6 SEGMENT INFORMATION (continued)

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, investments in jointly controlled entities and assets of disposal group held for sale held by the Group 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. Liabilities directly associated with the disposal group held for sale are not considered to be segment liabilities.

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, 2010 and 2009 are set out as follows:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Drill pipes and related products	**713,068**	518,586
Coating materials and services	**371,856**	435,026
Oilfield services	**271,538**	53,044
	1,356,462	1,006,656

6 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the year ended December 31, 2010 is as follows:

Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
	For the year ended December 31, 2010			
Revenue				
Segment revenue	767,652	416,965	271,538	1,456,155
Inter-segment sales	(54,584)	(45,109)	–	(99,693)
Revenue from external customers	713,068	371,856	271,538	1,356,462
Results				
Segment gross profit	261,417	187,010	108,179	556,606
Segment profit	153,527	127,772	39,156	320,455
Finance income				700
Finance costs				(30,476)
Share of profits of associates				1,258
Share of losses of jointly controlled entities				(16,756)
Profit before income tax				275,181
Other information				
Depreciation of property, plant and equipment	35,199	9,916	10,585	55,700
Amortization of lease prepayments	927	106	–	1,033
Amortization of intangible assets	24	238	4	266
Capital expenditure	26,102	42,793	134,237	203,132

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at December 31, 2010			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	1,552,428	590,465	540,513	2,683,406
Investments in associates				78,811
Investments in jointly controlled entities				6,279
Total assets				2,768,496
Total liabilities	1,333,988	320,515	208,384	1,862,887

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the year ended December 31, 2009 is as follows:

	For the year ended December 31, 2009			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Revenue				
Segment revenue	582,962	454,948	53,044	1,090,954
Inter-segment sales	(64,376)	(19,922)	—	(84,298)
Revenue from external customers	518,586	435,026	53,044	1,006,656
Results				
Segment gross profit	165,632	202,925	17,016	385,573
Segment profit	54,787	138,203	(25,444)	167,546
Finance income				1,743
Finance costs				(19,699)
Share of losses of associates				(353)
Share of losses of jointly controlled entities				(13,532)
Profit before income tax				135,705
Other information				
Depreciation of property, plant and equipment	31,561	9,063	5,874	46,498
Amortization of lease prepayments	927	80	—	1,007
Amortization of intangible assets	22	240	1	263
Capital expenditure	58,441	6,038	132,523	197,002

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at December 31, 2009			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	1,313,718	543,016	251,839	2,108,573
Investments in associates				63,782
Investments in jointly controlled entities				15,509
Total assets				2,187,864
Total liabilities	870,177	243,121	61,379	1,174,677

(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,	
	2010 RMB'000	2009 RMB'000
The PRC	**778,903**	847,583
North and South America	**250,801**	18,845
Russia and Central Asia	**209,186**	116,648
Middle East	**99,876**	10,052
Others	**17,696**	13,528
	1,356,462	1,006,656

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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,	
	2010	2009
	RMB'000	RMB'000
The PRC	591,779	592,653
North and South America	82,487	10,497
Middle East	72,472	—
Russia and Central Asia	54,122	62,585
	800,860	665,735

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,	
	2010	2009
	RMB'000	RMB'000
Middle East	74,205	—
North and South America	76,163	152,742
The PRC	51,312	11,783
Russia and Central Asia	1,452	32,477
	203,132	197,002

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

During the year ended December 31, 2010 and 2009, revenue from certain individual customer amounted to ten percent or more of the Group's total combined revenue. The revenue of these customers are summarized below:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Oilfield services segment customer 1	**140,312**	n.a
Coating materials and services segment customer 2	**n.a**	151,288

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2009							
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	94,883	215,687	7,428	9,626	623	142,461	470,708
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 21)	(10,195)	(31,589)	(2,044)	(2,477)	(193)	–	(46,498)
Exchange differences	–	(8,941)	(16)	(6)	–	–	(8,963)
Closing net book amount	175,641	309,591	9,261	7,734	278	105,509	608,014
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	175,641	309,591	9,261	7,734	278	105,509	608,014
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 21)	**(8,092)**	**(41,944)**	**(2,818)**	**(2,670)**	**(176)**	**–**	**(55,700)**
Disposal of a subsidiary (Note 31)	**(4,706)**	**–**	**(16)**	**(165)**	**–**	**–**	**(4,887)**
Exchange differences	**–**	**(4,084)**	**–**	**–**	**–**	**–**	**(4,084)**
Closing net book amount	**171,816**	**438,713**	**8,641**	**7,737**	**477**	**105,908**	**733,292**
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	**171,816**	**438,713**	**8,641**	**7,737**	**477**	**105,908**	**733,292**

7 PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2010, certain machinery and equipment with carrying amount of RMB87,906,000 (December 31, 2009: nil) were secured for the Group's bank borrowing (Note 18(a)).

As at December 31, 2010, certain buildings and facilities with carrying amount of RMB88,411,000 (December 31, 2009: RMB94,933,000) were secured for the Group's bank borrowing (Note 18(a)).

As at December 31, 2010, certain machinery and equipment with carrying amount of RMB69,298,000 (December 31, 2009: nil) were secured for the Group's Series A convertible preferred shares (Note 18(b)).

Depreciation of property, plant and equipment has been charged to the combined income statements as follows:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Cost of sales	**40,249**	35,728
Administrative expenses	**15,227**	10,601
Selling and marketing expenses	**224**	169
	55,700	46,498

8 LEASE PREPAYMENTS

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,	
	2010	2009
	RMB'000	RMB'000
Outside of Hong Kong:		
— Lease of 50 years	**55,788**	45,691

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Opening net book value	**45,691**	46,698
Additions	**12,765**	—
Amortization charges (Note 21)	**(1,033)**	(1,007)
Disposal of a subsidiary (Note 31)	**(1,635)**	—
Closing net book value	**55,788**	45,691

As at December 31, 2010, certain land use right with a carrying amount of RMB39,747,000 (December 31, 2009: RMB40,636,000) was pledged as collaterals for the Group's bank borrowings (Note 18(a)).

The amortization of lease prepayments has been charged to administrative expenses in the combined income statements.

9 INTANGIBLE ASSETS

	Goodwill (a)	Proprietary technologies	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2009				
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
Year ended December 31, 2009				
Opening net book amount	11,203	305	682	12,190
Additions	—	—	103	103
Amortization charge (Note 21)	—	(46)	(217)	(263)
Closing net book amount	11,203	259	568	12,030
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	11,203	259	568	12,030
Year ended December 31, 2010				
Opening net book amount	**11,203**	**259**	**568**	**12,030**
Additions	**—**	**—**	**16**	**16**
Amortization charge (Note 21)	**—**	**(57)**	**(209)**	**(266)**
Closing net book amount	**11,203**	**202**	**375**	**11,780**
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	**11,203**	**202**	**375**	**11,780**

9 INTANGIBLE ASSETS (continued)

(a) 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. 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,	
	2010	2009
	RMB'000	RMB'000
Drill pipes and related products	**—**	—
Coating materials and services	**11,203**	11,203
Oilfield services	**—**	—
	11,203	11,203

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.

(b) The amortization of intangible assets has been charged to the combined income statements as follows:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Cost of sales	**46**	46
Administrative expenses	**220**	217
	266	263

10 INVESTMENTS IN ASSOCIATES

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Beginning of year	**63,782**	64,135
Acquisition of associates (Note 24(a))	**13,795**	—
New investments in an associate	**4,500**	—
Share of associates' results	**1,258**	(353)
Dividends declared	**(4,524)**	—
End of year	**78,811**	63,782

The particulars of the associates of the Group, 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 As at December 31,		Principle activities
			2010	2009	
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	November 20, 2004, Shanxi, the PRC	RMB18,000,000	**22.95%**	22.95%	Coating service provision
CNOOC Tube-Cote Coating Co., Ltd.	September 18, 2006, Tianjin, the PRC	RMB20,000,000	**20.4%**	20.4%	Coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	April 30, 2007, Jiangsu, the PRC	RMB105,880,000	**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	RMB20,000,000	**45%**	45%	Coating service provision
Anshan Haidelong Anti-Corrosion Engineering Co., Ltd.	November 22, 2010, Liaoning, the PRC	RMB15,000,000	**30%**	—	Coating service provision

10 INVESTMENTS IN ASSOCIATES (continued)

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	Profit/ (Loss)	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2010	**109,294**	**30,483**	**55,941**	**1,258**	**78,811**
Year ended December 31, 2009	128,451	64,669	69,400	(353)	63,782

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

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Investments and long-term receivables due from Almansoori Hilong Petroleum Pipe Company[(a)]	**—**	11,442
Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.[(b)]	**6,279**	4,067
	6,279	15,509

11 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

The particulars of the jointly controlled entities of the Group, which are unlisted, are set out as follows:

(a) 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,	
	2010	2009
	RMB'000	RMB'000
Beginning of year	**11,442**	19,203
New investments in the jointly controlled entities	**8,844**	6,309
Share of the jointly controlled entity's result	**(18,706)**	(14,042)
Elimination of unrealized profit	**(1,620)**	—
Exchange differences	**40**	(28)
End of year	**—**	11,442

(b) Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Beginning of year	**4,067**	—
New investments in the jointly controlled entities	**—**	5,000
Share of the jointly controlled entity's result	**1,950**	510
Elimination of unrealized profit	**262**	(1,443)
End of year	**6,279**	4,067

11 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

The Group's interests in its jointly controlled entities and certain of its key financial information attributable to the Group are as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at December 31, 2010	2009	Principle activities
Almansoori Hilong Petroleum Pipe Company	November 6, 2006, Emirate of Abu Dhabi	AED 1,000,000	**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	RMB10,000,000	**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 RMB'000	Liabilities RMB'000	Revenues RMB'000	Loss RMB'000	Net assets RMB'000
Year ended December 31, 2010	**102,908**	**96,629**	**20,431**	**(16,756)**	**6,279**
Year ended December 31, 2009	94,727	79,218	16,050	(13,532)	15,509

12 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES

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, 2010 RMB'000	2009 RMB'000
Deferred income tax assets:		
— to be recovered within 12 months	**39,106**	25,779
— to be recovered after more than 12 months	**(1,555)**	(1,514)
	37,551	24,265
Deferred income tax liabilities:		
— to be recovered within 12 months	**—**	—
— to be recovered after more than 12 months	**(77,061)**	(60,991)
	(77,061)	(60,991)

Movement in deferred income tax assets and liabilities, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets	**Tax losses carried forward** RMB'000	**Impairment provision on assets** RMB'000	**Accruals** RMB'000	**Unrealized profit** [(a)] RMB'000	**Others** RMB'000	**Total** RMB'000
At January 1, 2009	—	6,489	1,300	3,165	1,403	12,357
Credit/(charged) to the combined income statement	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
Credit/(charged) to the combined income statement	289	(8)	116	12,719	170	13,286
At December 31, 2010	**4,848**	**6,492**	**1,137**	**24,941**	**1,951**	**39,369**

12 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES (continued)

(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 RMB2,258,000 as at December 31, 2010 (December 31, 2009: RMB3,162,000) 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.

Deferred income tax liabilities	**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, 2009	(50,357)	(1,818)	(52,175)
Charged to the combined income statement	(10,634)	—	(10,634)
At December 31, 2009	(60,991)	(1,818)	(62,809)
Charged to the combined income statement	(16,070)	—	(16,070)
At December 31, 2010	**(77,061)**	**(1,818)**	**(78,879)**

13 INVENTORIES

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Raw materials	**135,118**	136,377
Work in progress	**54,581**	33,332
Finished goods	**166,791**	157,001
Packing materials	**452**	521
Low value consumables	**8,580**	5,951
	365,522	333,182

The cost of inventories recognized as cost of sales amounted to approximately RMB626,374,000 for the year ended December 31, 2010 (2009: RMB486,977,000).

14 TRADE AND OTHER RECEIVABLES

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Bills receivable[(a)]	**5,727**	16,370
Trade receivables[(b)]		
— Due from related parties (Note 32(c))	**55,025**	80,277
— Due from third parties	**710,648**	541,731
Less: provision for impairment of receivables[(d)]	**(11,033)**	(11,522)
Trade receivables — net	**754,640**	610,486
Other receivables[(c)]	**336,271**	242,765
Prepayments	**83,110**	49,545
Trade and other receivables — net	**1,179,748**	919,166

14 TRADE AND OTHER RECEIVABLES (continued)

As at December 31, 2010 and 2009, 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, 2010, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
— RMB	**996,289**	881,892
— USD	**131,655**	32,638
— CAD	**36,354**	—
— KZT	**15,361**	4,636
— AED	**86**	—
— IDR	**3**	—
	1,179,748	919,166

(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, 2010 was as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Trade receivables, gross		
— Within 90 days	**444,062**	329,987
— Over 90 days and within 180 days	**202,662**	65,533
— Over 180 days and within 360 days	**50,981**	104,964
— Over 360 days and within 720 days	**37,369**	100,031
— Over 720 days	**30,599**	21,493
	765,673	622,008

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.

14 TRADE AND OTHER RECEIVABLES (continued)

(b) (continued)

As at December 31, 2010, trade receivables of RMB11,033,000 (December 31, 2009: RMB11,522,000) 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 (December 31, 2009: nil) were secured for the Group's bank borrowing (Note 18(a)).

As at December 31, 2010, trade receivables of RMB310,578,000 (December 31, 2009: RMB280,499,000) 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,	
	2010	2009
	RMB'000	RMB'000
— Within 90 days	**202,662**	65,533
— Over 90 days and within 180 days	**46,633**	69,922
— Over 180 days and within 360 days	**31,515**	79,528
— Over 360 days and within 720 days	**10,558**	55,042
— Over 720 days	**19,210**	10,474
	310,578	280,499

(c) Details of other receivables are as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Due from related parties (Note 32(c))	**297,072**	211,325
Staff advance	**8,349**	18,536
Value added tax refund	**21,693**	223
Others	**9,157**	12,681
	336,271	242,765

14 TRADE AND OTHER RECEIVABLES (continued)

(d) Movements in impairment of trade receivables are as follows:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
At beginning of the year	**(11,522)**	(11,442)
Provision for impairment (Note 21)	**—**	(80)
Reversal of impairment (Note 21)	**489**	—
At the end of the year	**(11,033)**	(11,522)

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Cash at bank and in hand[(a)]	**299,506**	165,600
Less: Restricted cash[(b)]	**(52,570)**	(23,997)
Cash and cash equivalents	**246,936**	141,603

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Cash at bank and in hand are denominated in:		
— RMB	**145,845**	153,770
— USD	**115,656**	8,086
— HK$	**33,728**	—
— KZT	**3,668**	3,744
— AED	**457**	—
— IDR	**110**	—
— EURO	**42**	—
	299,506	165,600
Restricted cash is denominated in:		
— RMB	**48,357**	23,548
— USD	**4,164**	68
— KZT	**49**	381
	52,570	23,997

(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 rate of 0.36% for the year ended December 31, 2009 and 2010.

(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 18(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.

16 SHARE CAPITAL

	Note	Number of ordinary shares	Nominal value of ordinary shares (HK$)	Equivalent nominal value of ordinary share (RMB)
Authorised:				
Ordinary shares of HK$0.1 each	(a)	3,753,300	375,330	330,215
Preferred shares of HK$0.1 each	(a)	46,700	4,670	4,109
		3,800,000	380,000	334,324
Issued:				
Ordinary shares of HK$0.1 each issued upon incorporation on October 15, 2008 and December 31, 2009	(a)	1	0.1	0.09
Share issued and paid on November 30, 2010	(b)	952,972	952,972	810,846
As at December 31, 2010		**952,973**	**952,972**	**810,846**

(a) The Company was incorporated in the Cayman Islands on October 15, 2008 with an authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of a nominal value of HK$0.10 each. 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 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 convertible preferred shares of the Company.

(b) On November 30, 2010, pursuant to a board resolution, the Company issued 953,299 ordinary shares with a nominal value of HK$1.0 each to Hilong Group Limited, including 952,972 ordinary shares paid on November 30, 2010 and 327 ordinary shares paid on March 7, 2011.

(c) On January 31, 2011, 46,700 shares of Series A convertible preferred shares (Note 8(b)) was converted into 46,700 the Company's ordinary shares.

16 SHARE CAPITAL (continued)

(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 ordinary 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 ordinary shares of the Company 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 2%, 2% and 5.33% equity interest in the Company, respectively.

(f) On April 21, 2011, pursuant to the written resolutions of all the shareholders the Company, the Company issued of 1,199,000,000 ordinary shares, including 1,143,006,700 ordinary shares issued to Hilong Group Limited and the Mr. Zhang's Family Trusts and 55,993,300 ordinary shares issued to UMW CV, upon capitalization of an amount of HK$119,900,000 standing to the credit of the share premium account of the Company.

(g) On April 21, 2011, the Company completed its global initial public offering by issuing 400,000,000 ordinary shares of HK$0.1 each at a price of HK$2.6 per ordinary share. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on the same date. The Company generated proceeds amounting to HK$953,501,800 (equivalent to approximately RMB811,334,680) from the issue of new shares.

17 OTHER RESERVES

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Statutory reserve[1]	**76,395**	64,799
Capital reserve (Note 31)	**97**	145
Merger reserve[2]	**(158,820)**	146,063
	(82,328)	211,007

(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, 2010, RMB11,596,000 (2009: RMB10,651,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC Subsidiaries.

17 OTHER RESERVES (continued)

(2) Merger reserve

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Beginning of year	**146,063**	142,205
Contribution to subsidiaries by their then equity owners (a)	**6,044**	3,858
Consideration paid/payable to the then equity holders for acquisition or disposal of subsidiaries under common control (b)	**(310,927)**	—
End of year	**(158,820)**	146,063

(a) *Contribution to subsidiaries by their then equity holders*

Contribution to subsidiaries by their then equity holders in 2009 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.

Contribution to subsidiaries by their then equity holders in 2010 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*

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 Investment 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 31).

18 BORROWINGS

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Non-current		
Bank borrowing — unsecured	**5,900**	10,600
Related party borrowing (Note 32(c))	**10,565**	11,796
Less: Current portion of non-current borrowings	**(15,265)**	(10,318)
	1,200	12,078
Current		
Bank borrowings — secured[a]	**401,758**	264,000
Bank borrowings — unsecured	**217,000**	152,000
Series A convertible preferred shares[b]	**169,401**	—
Current portion of non-current borrowing	**15,265**	10,318
	803,424	426,318
	804,624	438,396

The Group's bank borrowings are denominated in the following currencies:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Bank borrowings:		
— RMB	**665,301**	426,600
— HK$	**128,758**	—
— USD	**10,565**	11,796
	804,624	438,396

18 BORROWINGS (continued)

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, 2010	**804,624**	**—**	**—**	**804,624**
As at December 31, 2009	426,600	—	11,796	438,396

The maturity of borrowings is as follows:

	As at December 31, 2010	2009
	RMB'000	RMB'000
On demand or within 1 year	**803,424**	426,318
Between 1 and 2 years	**1,200**	10,878
Between 2 and 5 years	**—**	1,200
	804,624	438,396

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31, 2010	2009
	RMB'000	RMB'000
Borrowings — current		
— RMB	**5.78%**	5.35%
— HK$	**6.5%**	—
Borrowings — non-current		
— RMB	**5.31%**	5.31%
— USD	**10%**	10%

18 BORROWINGS (continued)

The fair value of current borrowings equals 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,	
	2010	2009
	RMB'000	RMB'000
Carrying amount		
Bank borrowing — unsecured	**1,200**	5,900
Related party borrowing	**—**	6,178
	1,200	12,078

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Fair value		
Bank borrowing — unsecured	**1,124**	5,479
Related party borrowing	**—**	6,178
	1,124	11,657

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.

18 BORROWINGS (continued)

The Group had the following undrawn bank borrowing facilities:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
RMB facilities	**—**	60,700

(a) Bank borrowings — secured

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Guaranteed by related parties(i)	**140,000**	212,000
Secured by property, plant and equipment, accounts receivables and guaranteed by related parties(ii)	**128,758**	—
Secured by property, plant and equipment, land use rights and guaranteed by related parties(iii)	**116,000**	45,000
Secured by property, plant and equipment and land use rights(iv)	**7,000**	7,000
Secured by bank deposit(v)	**10,000**	—
	401,758	264,000

i. The bank borrowings of RMB100,000,000 were guaranteed by Mr. Zhang Jun as at December 31, 2010 (December 31, 2009: RMB100,000,000); the bank borrowings of RMB40,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun as at December 31, 2010 (December 31, 2009: RMB70,000,000); and no bank borrowing was guaranteed by Huashi Hailong as at December 31, 2010 (December 31, 2009: RMB42,000,000);

ii. 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 14) of the Group as at December 31, 2010 (December 31, 2009: nil);

18 BORROWINGS (continued)

(a) Bank borrowings — secured (continued)

iii. The bank borrowings of RMB116,000,000 and RMB45,000,000 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 RMB124,287,000 and RMB131,527,000 as at December 31, 2010 and December 31, 2009;

iv. 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 RMB3,871,000 and RMB4,042,000 as at December 31, 2010 and December 31, 2009; and

v. The bank borrowings of RMB10,000,000 were secured by certain bank deposit (Note 15(b)) of the Group, with total carrying amount of RMB5,000,000 as at December 31, 2010 (December 31, 2009: nil).

(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. The series A Convertible preferred shares were convert into ordinary shares on January 31, 2011.

18 BORROWINGS (continued)

(b) Series A convertible preferred shares (continued)

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 oblidged 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 Ltd. 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 amortised 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).

18 BORROWINGS (continued)

(b) Series A convertible preferred shares (continued)

iv. Redemption (continued)

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:

	The liability component (Borrowings) RMB'000	**Derivative financial instruments** RMB'000	**Total** RMB'000
As at August 26, 2010 (Issuance date)	164,800	3,090	167,890
Changes in fair value (Note 24)	—	(2,957)	(2,957)
Amortization using the effective interest method (Note 25)	4,601	—	4,601
As at December 31, 2010	**169,401**	**133**	**169,534**

The Series A convertible preferred shares 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 (December 31, 2009: nil).

(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 25).

19 DEFERRED REVENUE

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.

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Government grants,		
Current — relating to certain research projects	**405**	5,574
Non-current — relating to certain production lines	**13,650**	—
	14,055	5,574

20 TRADE AND OTHER PAYABLES

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Bills payable	**98,176**	90,300
Trade payables:		
— Due to related parties (Note 32(c))	**41,256**	60,132
— Due to third parties	**239,797**	141,924
Other payables:		
— Due to related parties (Note 32(c))	**319,301**	189,707
— Due to third parties	**67,759**	39,004
Staff salaries and welfare payables	**10,098**	12,173
Advance from customers	**96,084**	56,886
Interest payables	**475**	423
Accrued taxes other than income tax	**23,820**	23,026
Dividends payable	**51,852**	45,513
Other liabilities	**4,804**	3,696
	953,422	662,784

20 TRADE AND OTHER PAYABLES (continued)

As at December 31, 2010 and 2009, 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, 2010, trade and other payables were denominated in the following currencies:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
— RMB	**714,575**	580,810
— USD	**233,121**	73,468
— KZT	**5,726**	8,498
— CAD	**—**	8
	953,422	662,784

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,	
	2010	2009
	RMB'000	RMB'000
Trade payables, gross		
— Within 90 days	**195,316**	57,372
— Over 90 days and within 180 days	**26,855**	24,127
— Over 180 days and within 360 days	**1,694**	46,920
— Over 360 days and within 720 days	**5,411**	39,242
— Over 720 days	**51,777**	34,395
	281,053	202,056

21 EXPENSES BY NATURE

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress (Note 13)	**(31,039)**	(1,120)
Raw materials and consumable used (Note 13)	**657,413**	488,097
Employee benefit expenses (Note 22)	**113,239**	88,628
Utilities and electricity	**55,760**	44,788
Depreciation (Note 7)	**55,700**	46,498
Transportation expenses	**48,926**	44,929
Entertainment expenses	**27,246**	28,851
Research and development expense	**27,617**	22,324
Travelling and communication expenses	**16,637**	12,491
Marketing and promotion expenses	**16,051**	14,858
Consulting expenses	**13,797**	19,614
Operating lease payments	**13,008**	11,364
Sales commission and staff's travelling and lodging expense	**9,560**	8,888
IPO expense	**8,518**	—
Taxes and levis	**7,592**	5,830
Auditor's remuneration	**4,454**	1,546
Amortization of lease prepayments (Note 8)	**1,033**	1,007
Amortization of intangible assets (Note 9)	**266**	263
(Reversal)/provision for impairment of receivables (Note 14)	**(489)**	80
Miscellaneous	**5,803**	2,934
Total cost of sales, selling and marketing and administrative expenses	**1,051,092**	841,870

22 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Wages and salaries	**93,871**	73,466
Other social security costs	**19,368**	15,162
	113,239	88,628

23 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Director's emoluments

Director's emoluments for the year ended December 31, 2010 and 2009 are set out as follows:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Basic salaries and allowances	**860**	683
Discretionary bonuses	**187**	323
Other benefits including pension	**65**	32
	1,112	1,038

No director has waived or agreed to waive any emoluments.

23 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Director's emoluments (continued)

Director's emoluments are set out below:

	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Other benefits including pension RMB'000	Total RMB'000
Year ended December 31, 2010					
Executive Directors					
Zhang Jun (張軍)	–	–	–	–	–
Zhang Shunman (張姝嫚)	–	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	–	–	–	–	–
		860	187	65	1,112
Year ended December 31, 2009					
Executive Directors					
Zhang Jun (張軍)	–	–	–	–	–
Zhang Shunman (張姝嫚)	–	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	–	–	–	–	–
	–	683	323	32	1,038

23 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group didn't include any director for the year ended December 31, 2010 and 2009. The emoluments payable to the these individuals for the year ended December 31, 2010 and 2009 are as follows:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Basic salaries and allowances	**2,475**	1,450
Discretionary bonuses	**2,520**	2,920
Other benefits including pension	**159**	254
	5,154	4,624

The emoluments fell within the following bands:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Emolument bands:		
Nil to HK$1,000,000 (equivalent to RMB860,000)	**3**	4
HK$1,000,001 to HK$2,000,000 (equivalent to RMB860,000 to RMB1,720,000)	**2**	1
	5	5

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.

Notes to the Combined Financial Statements

For the year ended December 31, 2010

24 OTHER GAINS — NET

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Gain/(loss) on disposal of property, plant and equipment — net	**107**	(1,510)
Exchange losses	**(1,514)**	(3,557)
Government grants	**7,995**	7,709
Negative goodwill [a]	**5,420**	—
Changes in fair value of Series A convertible preferred shares (Notes 18(b))	**2,957**	—
Donation expenses	**(148)**	(110)
Others	**268**	228
	15,085	2,760

(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	(5,420)

As at December 31, 2010, the purchase consideration has not been paid.

25 FINANCE COSTS — NET

	Year ended December 31, 2010 RMB'000	2009 RMB'000
Finance income:		
— Interest income derived from bank deposits	**700**	941
— Initial recognition of an interest-free related party borrowing using effective interest method (Note 18(c))	**—**	802
	700	1,743
Finance cost:		
— Amortization of an interest-free related party borrowing using effective interest method (Note 18(c))	**(1,073)**	(526)
— Amortization of the liability component of Series A convertible preferred shares using effective interest method (Note 18(b))	**(4,601)**	—
— Interest expense on bank borrowings	**(24,802)**	(19,173)
	(30,476)	(19,699)
Finance costs — net	**(29,776)**	(17,956)

26 INCOME TAX EXPENSE

	Year ended December 31, 2010 RMB'000	2009 RMB'000
Current income tax	**42,491**	28,781
Deferred income tax (Note 12)	**2,784**	(3,092)
Income tax expense	**45,275**	25,689

26 INCOME TAX EXPENSE (continued)

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,	
	2010	2009
	RMB'000	RMB'000
Profit before tax	**275,181**	135,705
Tax calculated at statutory tax rates applicable to each group entity	**40,995**	19,196
Tax effect of:		
Expenses not deductible for tax purpose	**2,583**	5,006
Tax effect of tax exemption and reduced tax rate under tax holiday[a]	**(32)**	(125)
Additional deduction for research and development expense[b]	**—**	(1,236)
Income not subject to income tax	**(529)**	(314)
Unrecognized tax losses carried forward (Note 12)	**2,258**	3,162
Tax charge	**45,275**	25,689

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 year ended December 31, 2010 and 2009.

Enterprises incorporated in other places are subject to income tax rates of 20% to 25% prevailing in the places in which the Group operated for the year ended December 31, 2010 and 2009.

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.

26 INCOME TAX EXPENSE (continued)

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 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 are as follows:

	Year ended December 31,	
	2010	2009
	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%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.*	**15%**	15%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	12.5%

* 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 after the tax holiday as mentioned above.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the year ended December 31, 2010 and 2009.

26 INCOME TAX EXPENSE (continued)

(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.

27 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue during 2010 and 2009, the 1 share issued in connection with the incorporation of the Company on August 15, 2008 (Note 16(a)), the 953,299 shares issued on November 30, 2010 (Note 16(b)) and the 1,143,006,700 shares issued and allotted in connection through capitalization of the share premium account arose from the Listing of the Company on April 21, 2011 (Note 16(f)) have been regarded as if these shares were in issue since January 1, 2009.

	Year ended December 31,	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**178,369**	60,627
Weighted average number of ordinary shares in issue (thousands)	**1,143,960**	1,143,960
Basic earnings per share (RMB)	**0.1559**	0.0530

27 EARNINGS PER SHARE (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company only has one category of dilutive potential ordinary shares of Series A convertible preferred shares (Note 18(b)). The Series A convertible preferred shares is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

	Year ended December 31,	
	2010	2009
Earnings		
Profit attributable to equity holders of the Company (RMB'000)	**178,369**	60,627
Interest expense on Series A convertible preferred shares, net of tax (RMB'000)	**4,601**	—
Profit used to determine diluted earnings per share (RMB'000)	**182,970**	60,627
Weighted average number of ordinary shares in issue (thousands)	**1,143,960**	1,143,960
Adjustments for assumed conversion of Series A convertible preferred shares (thousand):	**19,499**	—
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**1,163,459**	1,143,960
Diluted earnings per share (RMB)	**0.1573**	0.0530

28 DIVIDENDS

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Dividends proposed by the relevant subsidiaries now comprising the Group out of their retained earnings to the then equity holders[(a)]	–	10,000

(a) Dividends disclosed for the years ended 31 December 2009 represented dividends 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.

(b) The directors of the Company have not proposed a final dividend as at the date of this report.

(c) There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

29 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Profit for the year before income tax	**275,181**	135,705
Adjustments for:		
— Depreciation of property, plant and equipment (Note 7)	**55,700**	46,498
— Amortization of lease prepayments (Note 8)	**1,033**	1,007
— Amortization of intangible assets (Note 9)	**266**	263
— Provision for impairment of receivables (Note 14)	**(489)**	80
— Share of results of associates (Note 10)	**(1,258)**	353
— Share of results of jointly controlled entities (Note 11)	**16,756**	13,532
— Initial recognition of an interest free related party borrowing using effective interest method (Note 25)	**—**	(802)
— Finance costs (Note 25)	**30,476**	19,699
— (Gain)/loss on disposal of property, plant and equipment (Note 24)	**(107)**	1,510
— Gain on changes in fair values of the Series A convertible preferred shares (Note 18(b))	**(2,957)**	—
— Negative goodwill (Note 24)	**(5,420)**	—
	369,181	217,845
Changes in working capital:		
— Increase in trade and other receivables	**(260,582)**	(106,919)
— Increase in inventories	**(32,340)**	(5,551)
— (Increase)/decrease in restricted cash	**(23,573)**	9,933
— Increase/(decrease) in trade and other payables	**171,136**	(7,725)
— Cash generated from operations	**223,822**	107,583

29 CASH GENERATED FROM OPERATIONS (continued)

(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,	
	2010	2009
	RMB'000	RMB'000
Net book amount (Note 7)	**402**	4,132
Gain/(loss) on disposal of property, plant and equipment (Note 24)	**107**	(1,510)
Proceeds from disposal of property, plant and equipment	**509**	2,622

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at each balance sheet date, but not yet incurred is as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Property, plant and equipment	**65,918**	143,109

30 COMMITMENTS (continued)

(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,	
	2010	2009
	RMB'000	RMB'000
No later than 1 year	**4,176**	3,544
Later than 1 year and no later than 3 year	**5,249**	3,789
Later than 3 years	**10,020**	11,723
	19,445	19,056

31 DISPOSALS OF A SUBSIDIARY

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.

	RMB'000
Total consideration	13,155
Net assets disposed	(13,551)
Loss on disposal	(396)
Amounts previously recognized in other comprehensive income	48
Loss on disposal recognized in merger reserve (Note 17(2))	(348)
The aggregated assets and liabilities in respect of the above disposals were as follows:	
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	(100)
Net assets	18,068
Equity interests rate	75%
Net assets disposed	13,551
Net loss on disposal	(396)
Total consideration	13,155
Less: other receivables due from related parties	(13,155)
Cash received	—
Less: Cash and cash equivalents in the subsidiary disposed	(100)
Cash outflow disposals	(100)

32 RELATED PARTY TRANSACTIONS

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 ultimate parent company of the Group is Hilong Group Limited (Note 1(a)), which owns 95.33% equity interest in the Group as at December 31, 2010, after taking into consideration of the Series A convertible preferred shares. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

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, 2010 and 2009, and balances arising from related party transactions as at December 31, 2010 and 2009.

(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

Hailong International
Hilong Oil Pipe Co., Ltd.
Hilong USA LLC
Huashi Hailong
Beijing Huashi Hilong Oil Investment Co., Ltd.
Huashi Audio Visual Investment (Beijing) Co., Ltd.
Jiangyan Hilong Wire Welding Co., Ltd.
Hebei Zhongxin Precision Machinery Co., Ltd.
Wuxi Borui Petroleum Engineering Co., Ltd.
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.*

* 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 31.

32 RELATED PARTY TRANSACTIONS (continued)

(a) Name and relationship with related parties (continued)

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.
Nantong Hilong Steel Pipe Co., Ltd.

(v) Jointly controlled entities of the Group

Almansoori Hilong Petroleum Pipe Company
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

(vi) The subsidiaries' non-controlling interest

Jiangsu Hilong Shuguang Steel Pipe Co., Ltd.

(vii) Controlled by key management personnel

Shanghai Yuanzhi Metallurgical Co., Ltd.
Shanghai Xinhao Technology Development Co., Ltd.
Shanxi Ante Petroleum Engineering Technology Co., Ltd.

32 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the years ended December 31, 2010 and 2009, the Group had the following significant transactions with related parties:

	The Group Year ended December 31, 2010 RMB'000	 2009 RMB'000
Sales of goods:		
Almansoori Hilong Petroleum Pipe Company	**29,626**	10,052
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**24,112**	4,480
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**10,389**	11,850
Beijing Huashi Hilong Oil Investment Co., Ltd.	**5,924**	4,134
Huashi Hailong	**5,701**	3,473
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**5,184**	5,364
Hilong Oil Pipe Co., Ltd.	**4,608**	4,607
Nantong Hilong Steel Pipe Co., Ltd.	**3,104**	36,965
Jiangyan Hilong Wire Welding Co., Ltd.	**2,863**	103
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**2,833**	3,827
Hailong International	**—**	5,702
	94,344	90,557
Purchase of materials:		
Nantong Hilong Steel Pipe Co., Ltd.	**37,875**	46,246
Beijing Huashi Hilong Oil Investment Co., Ltd.	**8,671**	3,476
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**4,889**	705
Jiangyan Hilong Wire Welding Co., Ltd.	**1,417**	1,411
Hebei Zhongxin Precision Machinery Co., Ltd.	**756**	19
Huashi Hailong	**—**	8,581
Wuxi Borui Petroleum Engineering Co., Ltd.	**—**	4,648
	53,608	65,086
Consulting fee:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**6,417**	2,083
Shanghai Xinhao Technology Development Co., Ltd.	**937**	6,000
	7,354	8,083
Sales Commission:		
Huashi Hailong	**127**	3,090

32 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

Before the Group became a certified supplier of certain state-owned entities, its products were sold to these state-owned entities through Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., which was a certified supplier of these state-owned entities since 2005. Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. charged sales commission to the Group, which usually ranged from 2% to 3% of total sales through Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.

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.

32 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	The Group	
	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Trade receivables due from:		
Almansoori Hilong Petroleum Pipe Company	28,239	—
Nantong Hilong Steel Pipe Co., Ltd.	11,000	11,016
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	3,383	1,523
Jiangyan Hilong Wire Welding Co., Ltd.	3,188	121
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	2,756	19,885
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	2,640	3,277
Hilong USA LLC	2,091	27,766
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	1,544	11,984
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	184	184
Beijing Huashi Hilong Oil Investment Co., Ltd.	—	4,521
	55,025	80,277
Other receivables due from:		
Huashi Hailong	160,075	175,180
Beijing Huashi Hilong Oil Investment Co., Ltd.	58,524	14,700
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	18,052	
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	13,230	12
Nantong Hilong Steel Pipe Co., Ltd.	12,632	—
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	11,703	3,843
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	10,400	10,400
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	
Hilong USA LLC	—	190
Jiangsu Hilong Shuguang Steel Pipe Co., Ltd.	—	7,000
	297,072	211,325
Prepayments to:		
Beijing Huashi Hilong Oil Investment Co., Ltd.	23,350	29,661

32 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	The Group	
	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Trade payables due to:		
Huashi Hailong	29,648	58,055
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.	4,767	—
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	3,382	504
Jiangyan Hilong Wire Welding Co., Ltd.	2,714	1,477
Beijing Huashi Hilong Oil Investment Co., Ltd.	745	96
	41,256	60,132
Other payables due to:		
Hailong International	317,072	115,947
Huashi Hailong	2,193	73,760
Beijing Huashi Hilong Oil Investment Co., Ltd.	36	—
	319,301	189,707
Advance from:		
Almansoori Hilong Petroleum Pipe Company	—	3,823
Dividends payable due to:		
Huashi Hailong	35,148	35,148
Hailong International	9,470	1,300
	44,618	36,448
Loan borrowing from:		
Hailong International (Note 18(c))	10,565	11,796

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand except for the borrowings from related party.

32 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

	Year ended December 31, 2010 RMB'000	2009 RMB'000
Basic salaries and allowances	**4,221**	2,683
Discretionary bonuses	**1,724**	2,102
Other benefits including pension	**301**	273
	6,246	5,058

33 SUBSIDIARIES

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/ registered capital	Effective interests held by the Group % December 31, 2010	2009	Direct/ Indirect	Principle activities
Hilong Group of Companies Ltd.	PRC, 14 January 2005, foreign invested enterprise	USD1,458,842	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, 30 August 2005, sino-foreign equity joint venture company	USD3,600,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, 17 November 2006, sino-foreign equity joint venture company	RMB50,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment

33 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/ registered capital	Effective interests held by the Group % December 31, 2010	Effective interests held by the Group % December 31, 2009	Direct/ Indirect	Principle activities
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, 22 November 2006, domestic company	RMB30,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, 1 January 2008, sino-foreign equity joint venture company	RMB40,000,000	**51%**	51%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 8 March 2002, sino-foreign equity joint venture company	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, 12 November 2003, sino-foreign equity joint venture company	RMB15,000,000	**72%**	72%	Indirect	Manufacturing and distribution of coating materials
Shanghai Hilong Anti-Corrosion Technolog Engineering Co., Ltd.	PRC, 9 November 2005, domestic company	RMB10,000,000	**60%**	60%	Indirect	Coating service provision
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, 7 January 2008, sino-foreign equity joint venture company	RMB20,000,000	**45.4%**	45.4%	Indirect	Coating service provision

33 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/ registered capital	Effective interests held by the Group % December 31, 2010	2009	Direct/ Indirect	Principle activities
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.*	PRC, 27 May 2002, sino-foreign equity joint venture company	USD2,100,000	75%	75%	Indirect	Manufacturing and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, 9 June 2009, domestic company	RMB6,000,000	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, 5 January 2009, domestic company	RMB24,000,000	99%	99%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Tubular Goods Research Institute	PRC, 27 October 2006, non-profit organization	RMB5,000,000	100%	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, 22 October 2003, sino-foreign equity joint venture company	USD4,000,000	38.09%	38.09%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, 29 December 2005, domestic company	RMB3,000,000	54%	54%	Indirect	Manufacturing and distribution of hardbanding materials
Hilong Oil Service and Engineering Co., Ltd.	PRC, 16 July 2008, domestic company	RMB80,000,000	95%	95%	Indirect	Oilfield service provision

33 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/ registered capital	Effective interests held by the Group % December 31, 2010	2009	Direct/ Indirect	Principle activities
Shanghai Hilong Tubular Goods Manufacuring Co., Ltd.	PRC, 16 April 2009, domestic company	RMB20,000,000	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 29 September 2010, domestic company	RMB15,000,000	55%	-	Indirect	Coating service provision
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008, limited liability company	- (1 share was issued with no par value)	100%	100%	Direct	Investment holding
Hilong Energy Limited	Hong Kong, 8 July 2008, limited liability company	HK$1	100%	100%	Indirect	Investment holding
Hilong Oil Service Ltd.	Malaysia, 4 March 2009, limited liability company	USD10,000	100%	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, 18 March 2009, limited liability company	USD400	100%	100%	Indirect	Oilfield service provision
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006, limited liability company	KZT110,000	100%	100%	Indirect	Oilfield service provision

33 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/ registered capital	Effective interests held by the Group % December 31, 2010	2009	Direct/ Indirect	Principle activities
PT Hilong Oil Service & Engineering Indonesia	The Republic of Indonesia, 6 May 2010, limited liability company	USD150,000	95%	-	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010, limited liability company	IDR30,000,000	100%	-	Indirect	Oilfield service provision
Hilong Investment Ltd.	Malaysia, 13 September 2006, limited liability company	USD100	100%	100%	Indirect	Investment holding
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007, limited liability company	CAD 100	100%	100%	Indirect	Oil and gas equipment trading
Hilong Drilling & Supply FZE	Dubai, 15 December 2009, limited liability company	AED 1,000,000	100%	100%	Indirect	Oilfield service provision

* The Group disposed of its entire 75% equity interest in Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. to Huashi Hailong. Details see note 31.

34 EVENTS AFTER THE BALANCE SHEET DATE

(a) On January 1, 2011, 46,322,000 share options were granted to directors and employees with an exercise price set at the price of HK$2.6 (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 March 2, 2011, the Group completed the Reorganization in preparation of the Listing.

(d) 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 2%, 2% and 5.33% equity interest in the Company, respectively.

(e) On April 21, 2011, pursuant to the written resolutions of all the shareholders the Company, the Company issued 1,199,000,000 shares to the then shareholders upon capitalization of an amount of HK$119,900,000 standing to the credit of the share premium account of the Company.

(f) On April 21, 2011, the Company completed its global initial public offering and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited, details of which are set out in Note 16 above.

35 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The combined financial statements were approved and authorised for issue by the board of directors of the Company on April 29, 2011.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of Hilong Holding Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Hilong Holding Limited (the "Company") set out on pages 151 to 183, which comprise the balance sheet as at December 31, 2010, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2010, and of the Company's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 29, 2011

Balance Sheet

As at December 31, 2010

	Note	As at December 31, 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary	4	–	–
Current assets			
Trade and other receivables	5,15(a)	264,949	–
Cash and cash equivalents	6	33,728	–
		298,677	–
Total assets		298,677	–
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	7	811	–
Accumulated losses		(4,408)	–
Total equity		(3,597)	–
LIABILITIES			
Current liabilities			
Trade and other payables	9	3,982	–
Derivative financial instruments	8(b)	133	–
Borrowings	8	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)	–

The notes on page 156 to 183 are an integral part of these financial statements.

The financial statements on page 151 to 183 were approved by the Board of Directors on April 29, 2011 and were signed on its behalf.

Zhang Shuman
Director

Ji Min
Director

Income Statement

For the year ended December 31, 2010

	Note	Year ended December 31, 2010 RMB'000	2009 RMB'000
Administrative expenses	10	(554)	—
Other gains — net	11	747	—
Operating profit		193	—
Finance costs — net	12	(4,601)	—
Loss before income tax		(4,408)	—
Income tax expense	13	—	—
Loss for the year attributable to equity holders of the Company		(4,408)	—

The notes on page 156 to 183 are an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended December 31, 2010

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Loss for the year	**(4,408)**	—
Other comprehensive income:		
Other comprehensive income for the year, net of tax	**–**	—
Total comprehensive loss for the year attributable to equity holders of the Company	**(4,408)**	—

The notes on page 156 to 183 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended December 31, 2010

		Capital and reserves attributable to equity holders of the Company			
	Note	Share capital RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at January 1, 2009 and December 31, 2009		—	—	—	—
As at January 1, 2010		—	—	—	—
Comprehensive income					
Loss for the year		—	—	(4,408)	(4,408)
Other comprehensive income		—	—	—	—
Total comprehensive loss for the year		—	—	(4,408)	(4,408)
Transactions with owners					
Share capital issued and paid	7	811	—	—	811
As at December 31, 2010		811	—	(4,408)	(3,597)

The notes on page 156 to 183 are an integral part of these financial statements.

Cash Flow Statement

For the year ended December 31, 2010

	Note	Year ended December 31, 2010 RMB'000	2009 RMB'000
Cash flow from operating activities			
Cash used in operating activities	14(a)	**(267,713)**	—
Cash flows from financing activities			
Capital contributions to the Company	7	**811**	—
Proceeds from borrowings		**300,630**	—
Net cash generated from financing activities		**301,441**	—
Net increase in cash and cash equivalents		**33,728**	—
Cash and cash equivalents at beginning of the year		**—**	—
Cash and cash equivalents at end of the year		**33,728**	—

The notes on page 156 to 183 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2010

1 GENERAL INFORMATION AND REORGANIZATION

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 reorganization (the "Reorganization"), the business of the Group was owned and operated through two holding companies, Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. ("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 Mr. Zhang Jun ("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.

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.

1 GENERAL INFORMATION AND REORGANIZATION (continued)

(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 RMB320,109,000.

Pursuant to the Reorganisation, which was completed on March 2, 2011, the Company became the holding company of the subsidiaries comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated April 11, 2011.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on April 21, 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and under the historical cost convention, as modified by the revaluation of derivative financial instruments which are carried at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

As at December 31, 2010, the Company had net current liabilities of RMB3,597,000. Subsequent to December 31, 2010, the Company completed its initial public offering of shares in Hong Kong and raised net proceeds of approximately HK$953,501,800 (equivalent to approximately RMB811,334,680). Taking this into account and based on the Company's operating performance and working capital forecast, the directors consider that there are sufficient financial resources available to the Company to meet its liabilities as and when they fall due and to carry on its business in the foreseeable future. Accordingly, the directors have prepared the financial statements on a going concern basis.

The following new/revised standards, amendments and interpretation of HKFRSs relevant to the Company are effective for annual periods beginning or after January 1, 2010. These have already been applied by the Company when it prepared its financial statements for the three years ended December 31, 2008 and 2009 and 2010 for preparing for the Listing.

- HKFRS 3 (revised) "Business combination";
- HKFRS 5 (amendment) "Non-current assets held for sale and discontinued operations";
- HKAS 1 (amendment) "Presentation of financial statements";
- HKAS 17 (amendment) "Lease";
- HKAS 36 (amendment) "Impairment of assets";
- HK(IFRIC) 16 "Hedges of a net investment in a foreign operation";
- HK-Int 5 "Presentation of financial statements — Classification by the borrower of a term loan that contains a prepayment on demand clause"; and
- Second improvements to HKFRS (2009) issued in May 2009 by HKICPA.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Certain new/revised standards, amendments and interpretations of HKFRSs have been published but are not yet effective for annual period beginning on January 1, 2010 and have not been early adopted by the Company. Those that are relevant to the Company's operations are as follows:

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009 (mandatory for the periods beginning on or after January 1, 2011). It supersedes HKAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities. The Company will apply the revised standard from January 1, 2011. It is not expected to have significant impact on the Company's financial statements;

- HK(IFRIC)-Int 19, 'Extinguishing financial liabilities with equity instruments', effective July 1, 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Company will apply the interpretation from January 1, 2011. It is not expected to have significant impact on the Company's financial statements;

- HKFRS 9, 'Financial instruments', issued in November 2009 (effective from annual period beginning on or after January 1, 2013). This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. The Company will apply this standard from January 1, 2013. It is not expected to have significant impact on the Company's financial statements; and

- Third improvements to HKFRS (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011. It is not expected to have significant impact on the Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.4). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(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 income statements within "finance income or cost". All other foreign exchange gains and losses are presented in the income statements within "other gains/(losses) — net".

2.4 Impairment of investments in subsidiaries

Impairment testing of the investments in subsidiaries are required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary 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 financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets

(a) Classification

The Company 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 Company only has financial assets classified as "loans and receivables" during the financial period.

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 Company's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents", in the balance sheets (Notes 5 and 6).

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date on which the Company 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 Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

2.6 Trade and other receivables

Trade receivables are amounts due from related party. 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.

When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited to the income statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 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.

2.8 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.

2.9 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.

2.10 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 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 capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Borrowings and borrowing costs (continued)

Borrowings are classified as current liabilities unless the Company 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 capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.11 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 instrument vary in a way similar to a stand-alone derivative.

The Company 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;
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- 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 income statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Compound financial instruments

Compound financial instruments refer to the Series A convertible preferred shares issued by the Company (Note 8(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.

2.13 Provision and contingent liabilities

Provisions are recognized when the Company 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 Company. 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 Company's financial statement. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Revenue recognition

The Company 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 Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company 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.

(b) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Company'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 Company mitigates these risks are set out below. The Company manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Company's functional currency is RMB 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 Company did not hedge against any fluctuation in foreign currency for the year ended December 31, 2010 and 2009, management may consider entering into currency hedging transactions to manage the Company's exposure towards fluctuations in exchange rates in future.

As at December 31, 2010, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the net loss for the year would have been RMB221,000 (2009: nil) lower/higher as a result of foreign exchange gains/losses on translation of RMB and USD denominated trade and other receivables.

(ii) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets except for cash and cash equivalents, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company'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 Company to fair value interest-rate risk. The Company 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 8.

As at December 31, 2010, changes in interest rate on borrowings would not have any impact on the net loss for the year as the floating rate borrowing was borrowed from December 31, 2010 and no interest expense was charged to the income statement.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables included in the financial statements represent the Company's maximum exposure to credit risk in relation to its financial assets. The objective of the Company's measures to manage credit risk is to control potential exposure to recoverability problem.

All cash and cash equivalents were deposited in the high credit quality financial institutions, and the trade and other receivables were due from related party. The directors of the Company do not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

The Company'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 Company's liquidity reserve and cash and cash equivalents on the basis of expected cash flow. The Company expected to fund the future cash flow needs through internally generated cash flows from operations of its subsidiaries, borrowings from financial institutions and proceeds from initial public offering.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Company'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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2010					
Borrowings	307,428	–	–	–	307,428
Interest payable on borrowing	4,314	–	–	–	4,314
Trade and other payables	3,982	–	–	–	3,982
	315,724	–	–	–	315,724
As at December 31, 2009					
Borrowings	–	–	–	–	–
Interest payable on borrowing	–	–	–	–	–
Trade and other payables	–	–	–	–	–
	–	–	–	–	–

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4 INVESTMENT IN A SUBSIDIARY

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Unlisted, at cost	–	–

The following is the details of the subsidiary at December 31, 2010 and 2009.

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Company %	Principle activities
Hilong Energy Holding Limited	British Virgin Islands, October 15, 2008	1 share was issued with no par value	100%	Investment holding

5 TRADE AND OTHER RECEIVABLES

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Other receivables due from related party (Note 15(a))	264,949	–

As at December 31, 2010 and 2009, the fair value of the trade and other receivables of the Company approximated its carrying amounts.

As at December 31, 2010, the carrying amounts of the Company's trade and other receivables are denominated in USD.

The ageing of trade and other receivables is within 180 days.

6 CASH AND CASH EQUIVALENTS

All the cash and cash equivalents of the Company are not restricted and denominated in HK dollars.

7 SHARE CAPITAL

	Note	Number of ordinary shares	Nominal value of ordinary shares (HK$)	Equivalent nominal value of ordinary share (RMB)
Authorised:				
Ordinary shares of HK$0.1 each	(a)	3,753,300	375,330	330,215
Preferred shares of HK$0.1 each	(a)	46,700	4,670	4,109
		3,800,000	380,000	334,324
Issued:				
Ordinary shares of HK$0.1 each issued upon incorporation on October 15, 2008 and December 31, 2009	(a)	1	0.1	0.09
Share issued and paid on November 30, 2010	(b)	952,972	952,972	810,846
As at December 31, 2010		**952,973**	**952,972**	**810,846**

(a) The Company was incorporated in the Cayman Islands on October 15, 2008 with an authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of a nominal value of HK$0.10 each. 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 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 convertible preferred shares of the Company.

(b) On November 30, 2010, pursuant to a board resolution, the Company issued 953,299 ordinary shares with a nominal value of HK$1.0 each to Hilong Group Limited, including 952,972 ordinary shares paid on November 30, 2010 and 327 ordinary shares paid on March 7, 2011.

7 SHARE CAPITAL (continued)

(c) On January 31, 2011, 46,700 shares of Series A convertible preferred shares (Note 8(b)) was converted into 46,700 the Company's ordinary shares.

(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 ordinary 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 ordinary shares of the Company 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 2%, 2% and 5.33% equity interest in the Company, respectively.

(f) On April 21, 2011, pursuant to the written resolutions of all the shareholders the Company, the Company issued of 1,199,000,000 ordinary shares, including 1,143,006,700 ordinary shares issued to Hilong Group Limited and the Mr. Zhang's Family Trusts and 55,993,300 ordinary shares issued to UMW CV, upon capitalization of an amount of HK$119,900,000 standing to the credit of the share premium account of the Company.

(g) On April 21, 2011, the Company completed its global initial public offering by issuing 400,000,000 ordinary shares of HK$0.1 each at a price of HK$2.6 per ordinary share. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on the same date. The Company generated proceeds amounting to HK$953,501,800 (equivalent to approximately RMB811,334,680) from the issue of new shares.

8 BORROWINGS

	As at December 31, 2010 RMB'000	As at December 31, 2009 RMB'000
Current		
Bank borrowings — secured[(a)]	**128,758**	—
Series A convertible preferred shares[(b)]	**169,401**	—
	298,159	—

The Company's bank borrowings are denominated in the following currencies:

	As at December 31, 2010 RMB'000	As at December 31, 2009 RMB'000
Borrowings:		
— RMB	**169,401**	—
— HK$	**128,758**	—
	298,159	—

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	6 months or less RMB'000	**Between 6 and 12 months** RMB'000	**Between 1 and 5 years** RMB'000	**Total** RMB'000
As at December 31, 2010	**298,159**	**—**	**—**	**298,159**
As at December 31, 2009	—	—	—	—

8 BORROWINGS (continued)

The maturity of borrowings is as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
On demand or within 1 year	**298,159**	—
Over 1 year	**—**	—
	298,159	—

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Borrowings:		
— RMB	**8.15%**	
— HK$	**6.5%**	—

The fair value of current borrowings equals their carrying amount as the discounting impact is not significant.

The Company had no undrawn bank borrowing facilities as at December 31, 2010 and 2009.

(a) Bank borrowings — secured

The bank borrowings of RMB128,758,000 were guaranteed by Mr. Zhang Jun, and secured by certain machinery and equipment in certain subsidiaries with carrying amount of RMB87,906,000 and certain trade receivables in certain subsidiaries with carrying amount of RMB178,411,000 as at December 31, 2010 (December 31, 2009: nil).

8 BORROWINGS (continued)

(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. The series A Convertible preferred shares were convert into ordinary shares on January 31, 2011.

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 Ltd. 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.

8 BORROWINGS (continued)

(b) Series A convertible preferred shares (continued)

iv. Redemption (continued)

The redemption price is not approximately equal on exercise date to the amortised 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 2.11).

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 financial statements and the effective interest rate is 8.15%.

The movement for Series A convertible preferred shares after its issuance is as follows:

	The liability component (Borrowings)	Derivative financial instruments	Total
	RMB'000	RMB'000	RMB'000
As at August 26, 2010 (Issuance date)	164,800	3,090	167,890
Changes in fair value (Note 11)	—	(2,957)	(2,957)
Amortization using the effective interest method (Note 12)	4,601	—	4,601
As at December 31, 2010	**169,401**	**133**	**169,534**

The Series A convertible preferred shares was secured by certain machinery and equipment in certain subsidiaries, with total carrying amount of RMB69,298,000 as at December 31, 2010 (December 31, 2009: nil).

9 TRADE AND OTHER PAYABLES

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Fees payable on the establishment of loan facility	**3,982**	—

All the fees payable of the Company was in HK dollars.

The ageing of trade and other payables of the Company are within 90 days.

10 ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
IPO expenses	**554**	—

11 OTHER GAINS — NET

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Changes in fair value of Series A convertible preferred shares (Notes 8(b))	**2,957**	—
Exchange losses	**(2,210)**	—
	747	

12 FINANCE COSTS — NET

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Finance cost:		
— Amortization of the liability component of Series A convertible preferred shares using effective interest method (Note 8(b))	**(4,601)**	—

13 INCOME TAX EXPENSE

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.

14 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Loss for the year before income tax	**(4,408)**	—
Adjustments for:		
— Finance costs (Note 12)	**4,601**	—
— Gain on changes in fair values of the Series A convertible preferred shares (Note 8(b))	**(2,957)**	—
	(2,764)	—
Changes in working capital:		
— Increase in trade and other receivables	**(264,949)**	—
— Cash used in operating activities	**(267,713)**	—

15 RELATED PARTY TRANSACTIONS

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 ultimate parent company of the Company is Hilong Group Limited (Note 1(a)), which owns 95.33% equity interest in the Group as at December 31, 2010, after taking into consideration of the Series A convertible preferred shares. The ultimate Controlling Shareholder of the Company is Mr. Zhang Jun.

The Directors of the Company are of the view that the following company are related parties of the Company:

Subsidiary of the Company

Hilong Energy Limited

(a) Balances with related parties

	As at December 31,	
	2010	2009
	RMB'000	RMB'000
Other receivables due from:		
Hilong Energy Limited	**264,949**	—

Other receivables due from Hilong Energy Limited, the subsidiary of the Company, is non-trade in nature, unsecured, interest-free and have no fixed payment terms.

16 EVENTS AFTER THE BALANCE SHEET DATE

(a) On January 1, 2011, 46,322,000 share options were granted to directors and employees with an exercise price set at the price of HK$2.6 (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 March 2, 2011, the Group completed the Reorganization in preparation of the Listing. Details of the companies comprising the Group which have become subsidiaries of the Company since March 2, 2011 are as follows:

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/registered capital	Effective interests held by the Group %	Direct/ Indirect	Principle activities
Hilong Group of Companies Ltd.	PRC, 14 January 2005, foreign invested enterprise	USD1,458,842	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, 30 August 2005, sino-foreign equity joint venture company	USD3,600,000	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, 17 November 2006, sino-foreign equity joint venture company	RMB50,000,000	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, 22 November 2006, domestic company	RMB30,000,000	100%	Indirect	Manufacturing and distribution of oil and gas equipment

16 EVENTS AFTER THE BALANCE SHEET DATE (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/registered capital	Effective interests held by the Group %	Direct/ Indirect	Principle activities
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, 1 January 2008, sino-foreign equity joint venture company	RMB40,000,000	51%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 8 March 2002, sino-foreign equity joint venture company	RMB26,000,000	51%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, 12 November 2003, sino-foreign equity joint venture company	RMB15,000,000	72%	Indirect	Manufacturing and distribution of coating materials
Shanghai Hilong Anti-Corrosion Technolog Engineering Co., Ltd.	PRC, 9 November 2005, domestic company	RMB10,000,000	60%	Indirect	Coating service provision
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, 7 January 2008, sino-foreign equity joint venture company	RMB20,000,000	45.4%	Indirect	Coating service provision
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, 9 June 2009, domestic company	RMB6,000,000	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, 5 January 2009, domestic company	RMB24,000,000	99%	Indirect	Manufacturing and distribution of oil and gas equipment

16 EVENTS AFTER THE BALANCE SHEET DATE (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/registered capital	Effective interests held by the Group %	Direct/ Indirect	Principle activities
Shanghai Hilong Tubular Goods Research Institute	PRC, 27 October 2006, non-profit organization	RMB5,000,000	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, 22 October 2003, sino-foreign equity joint venture company	USD4,000,000	38.09%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, 29 December 2005, domestic company	RMB3,000,000	54%	Indirect	Manufacturing and distribution of hardbanding materials
Hilong Oil Service and Engineering Co., Ltd.	PRC, 16 July 2008, domestic company	RMB80,000,000	95%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacuring Co., Ltd.	PRC, 16 April 2009, domestic company	RMB20,000,000	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 29 September 2010, domestic company	RMB15,000,000	55%	Indirect	Coating service provision
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008, limited liability company	— (1 share was issued with no par value)	100%	Direct	Investment holding

16 EVENTS AFTER THE BALANCE SHEET DATE (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/registered capital	Effective interests held by the Group %	Direct/ Indirect	Principle activities
Hilong Energy Limited	Hong Kong, 8 July 2008, limited liability company	HK$1	100%	Indirect	Investment holding
Hilong Oil Service Ltd.	Malaysia, 4 March 2009, limited liability company	USD10,000	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, 18 March 2009, limited liability company	USD400	100%	Indirect	Oilfield service provision
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006, limited liability company	KZT110,000	100%	Indirect	Oilfield service provision
PT Hilong Oil Service & Engineering Indonesia	The Republic of Indonesia, 6 May 2010, limited liability company	USD150,000	95%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010, limited liability company	IDR30,000,000	100%	Indirect	Oilfield service provision
Hilong Investment Ltd.	Malaysia, 13 September 2006, limited liability company	USD100	100%	Indirect	Investment holding

16 EVENTS AFTER THE BALANCE SHEET DATE (continued)

Company name	Country/place and date of incorporation and kind of legal entity for the subsidiaries	Issued and paid up capital/registered capital	Effective interests held by the Group %	Direct/ Indirect	Principle activities
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007, limited liability company	CAD 100	100%	Indirect	Oil and gas equipment trading
Hilong Drilling & Supply FZE	Dubai, 15 December 2009, limited liability company	AED 1,000,000	100%	Indirect	Oilfield service provision

(d) 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 2%, 2% and 5.33% equity interest in the Company, respectively.

(e) On April 21, 2011, pursuant to the written resolutions of all the shareholders the Company, the Company issued 1,199,000,000 shares to the then shareholders upon capitalization of an amount of HK$119,900,000 standing to the credit of the share premium account of the Company.

(f) On April 21, 2011, the Company completed its global initial public offering and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited, details of which are set out in Note 7 above.

17 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on April 29, 2011.

Financial Summary

A summary of the combined results and of the combined assets, equity and liabilities of the Group for the last four financial years, is set as below:

Combined Results	For the year ended 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,356,462**	1,006,656	1,701,380	898,891
Gross profit	**556,606**	385,573	765,765	386,173
Gross profit margin	**41.03%**	38.30%	45.01%	42.96%
Operating profit	**320,455**	167,546	575,568	288,102
Operating profit margin	**23.62%**	16.64%	33.83%	32.05%
Profit for the year	**229,906**	110,016	495,432	285,715
Profit attributable to:				
Equity holders of the Company	**178,369**	60,627	437,290	259,960
Non-controlling interests	**51,537**	49,389	58,142	25,755

Combined assets, equity and liabilities	As at 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets	**923,720**	769,916	628,986	381,758
Current assets	**1,844,776**	1,417,948	1,394,276	835,027
Total assets	**2,768,496**	2,187,864	2,023,262	1,216,785
EQUITY AND LIABILITIES				
Total equity	**905,609**	1,013,187	928,825	537,416
Non-current liabilities	**91,911**	73,069	66,069	15,300
Current liabilities	**1,770,976**	1,101,608	1,028,368	664,069
Total liabilities	**1,862,887**	1,174,677	1,094,437	679,369
Total equity and liabilities	**2,768,496**	2,187,864	2,023,262	1,216,785

The above summary does not form a part of the combined financial statements.