



HILONG

海隆控股有限公司*

Hilong Holding Limited

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



2014 Interim Results Presentation

August 2014

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Results Highlights

Business Reorganized to Achieve Higher Operating Efficiency



Oilfield Equipment Manufacturing and Services

- Drill pipes & related products
- OCTG coating services
- Drilling tools related services

Line Pipe Technology and Services

- Coating materials
- Line pipe coating services
- Corrosion resistant alloy (CRA) lined pipe
- Concrete weighted coating (CWC)
- Line pipe inspection services

- Offshore pipe laying services
- Offshore lifting & installation services
- Offshore engineering design services

- Land drilling services
- Comprehensive services

Offshore Engineering Services

Oilfield Services

Matured Business Steadily Developed with New Growth Drivers



Drill pipes and related products

❖ Drill pipe sales maintained steady with significant breakthrough in overseas markets

OCTG coating services

❖ Successful acquisition of Texas Internal Pipe Coating, LLC ("TIPC") in US

Traditional line pipe coating services

❖ Continue to explore the overseas markets

Newly developed line pipe coating services

❖ Remarkable revenue growth for CRA and CWC with reinforced market positions



Oilfield services

❖ Smooth operation of the 1st 3,000HP HTHP drilling rig HL-27 and another breakthrough in the most high-end land drilling services field

Line pipe inspection services

❖ Official launch of line pipe inspection business and winning of multiple projects

Offshore Engineering Services Segment Ready to Be Launched Soon



Focus on Engineering Work and Supplemented by Design Services

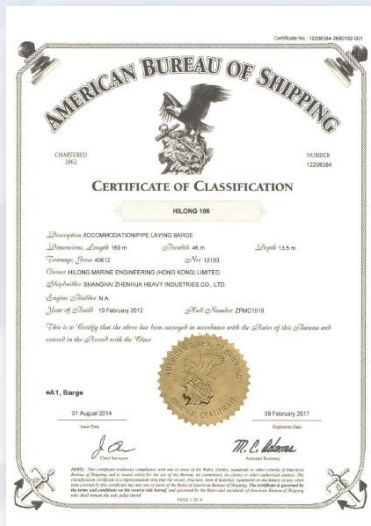
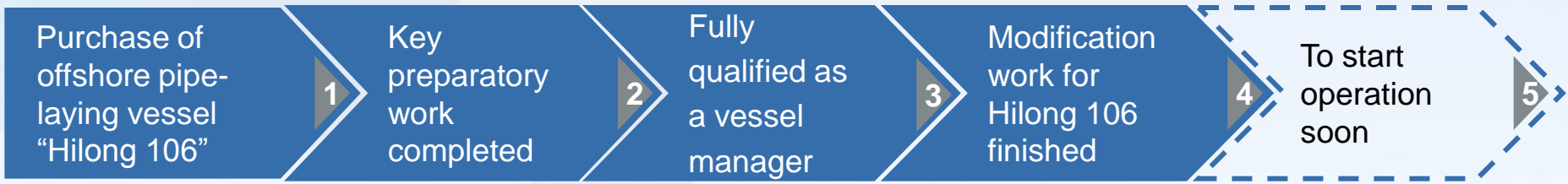
Year 2013



1st half of 2014



2nd half of 2014

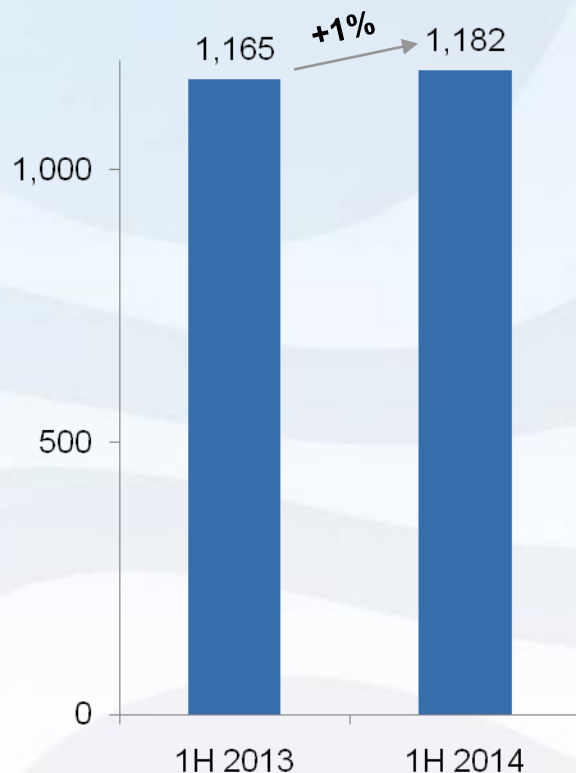


Stable Financial Performance



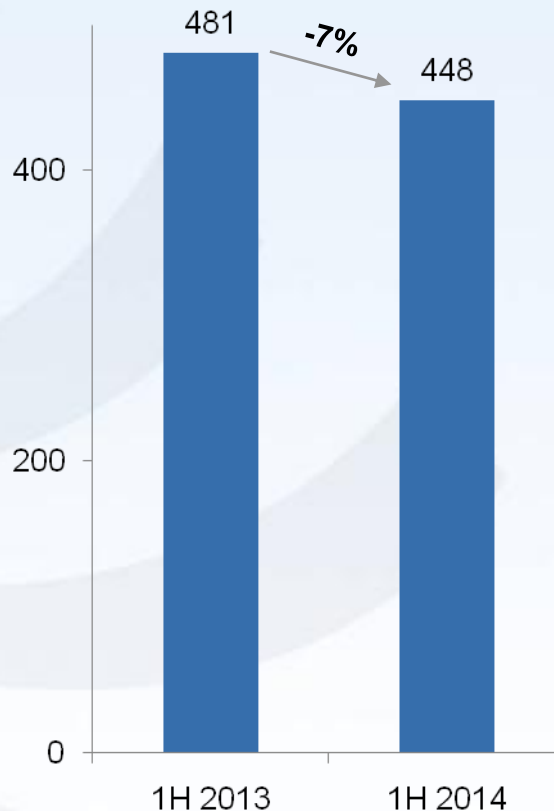
Total Revenue

RMB MM



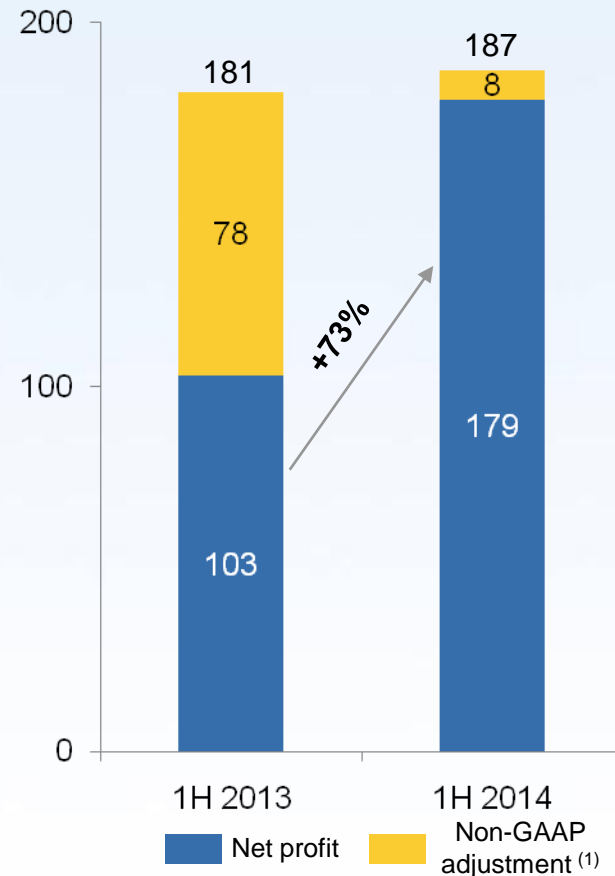
Gross Profit

RMB MM



Net Profit to Equity Owners

RMB MM



Note:

1. Non-GAAP adjustment includes losses in changes in fair value of the embedded derivative of the convertible bonds, fair value losses/(gains) on swap and certain share-based compensation expenses



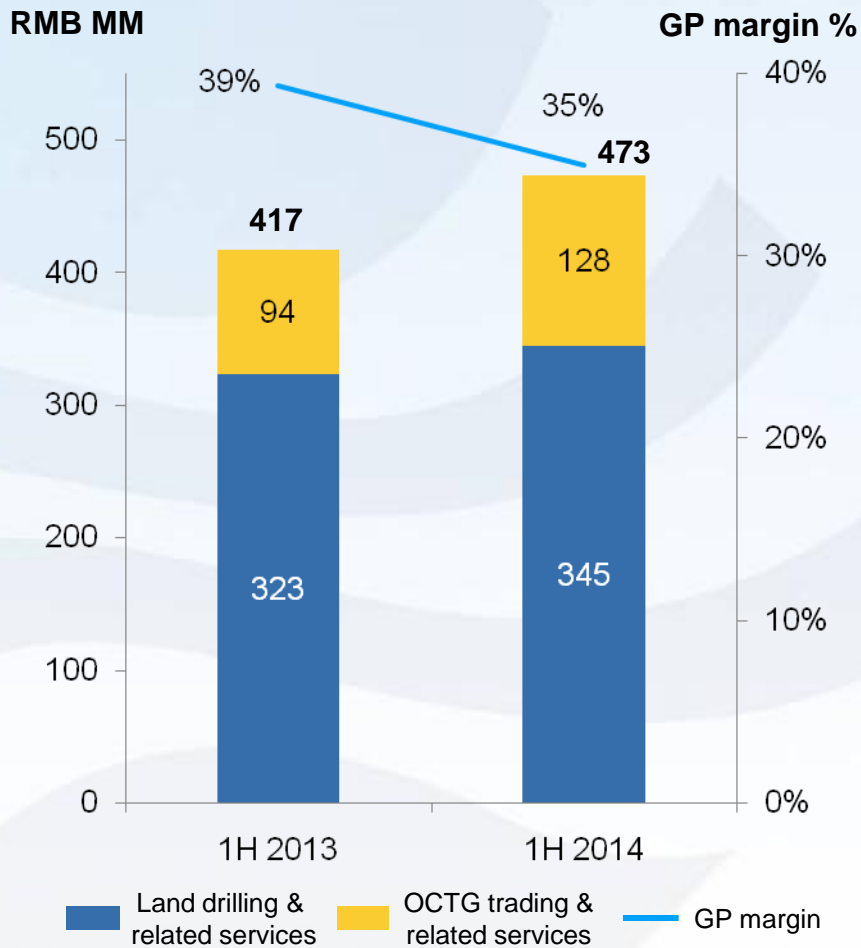
Business Review

Oilfield Services



Segment Revenue: +13% YoY

Successful March into Premium Market with Comprehensive Development



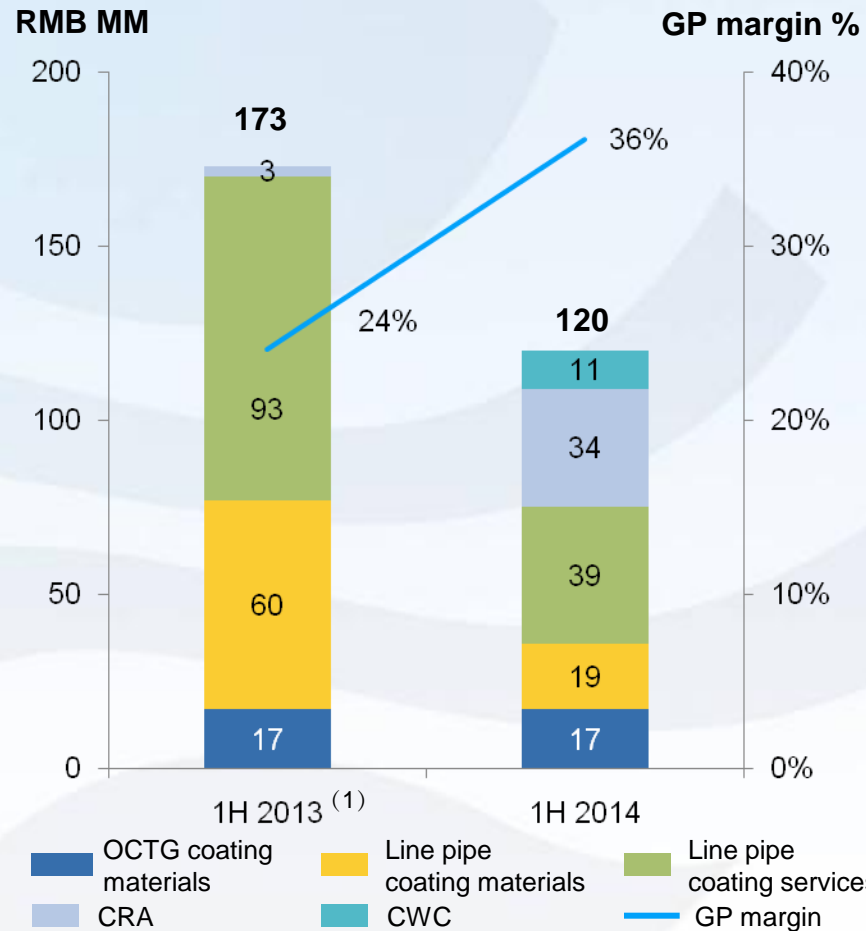
- ❖ Remarkable results for high-end drilling practice
 - ❖ Outstanding performance of HL-27 highly recognized by the customer
 - ❖ Established a higher benchmark for Hilong oilfield services
 - ❖ Major breakthrough in the most high-end onshore drilling services field

- ❖ Comprehensive services also developed along with land drilling services
 - ❖ Notable growth of OCTG trading and related services
 - ❖ Steady development of mud engineering services

Line Pipe Technology and Services



Segment Revenue Declined Due to Unfavorable Market Conditions



Inject New Impetus to Lead the Segment's Growth

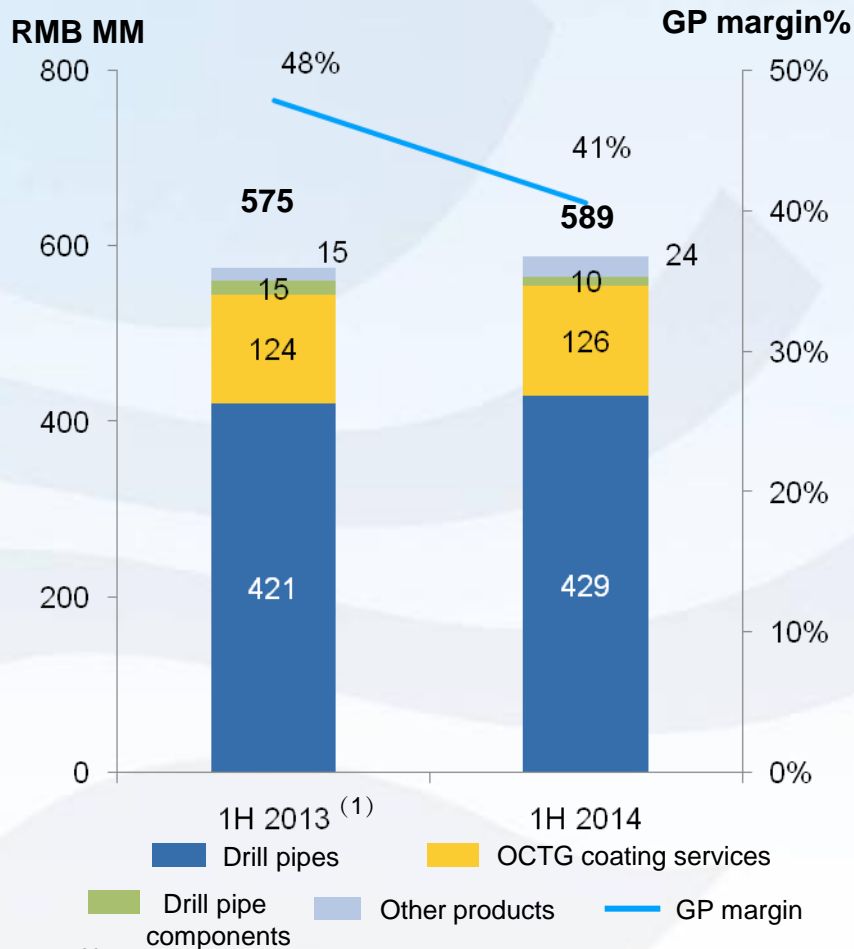
- ❖ Remarkable development achieved in overseas market expansion for line pipe coating services
 - ❖ APA project in Australia
- ❖ Significant growth and reinforced market positions for CRA and CWC
 - ❖ CRA projects from CNPC's Tarim Oilfields and Sichuan Oil and Gas Construction Engineering
 - ❖ The order for the CWC portion of the APA project in Australia obtained jointly with Baosteel
- ❖ Official launch of line pipe inspection services with superior technology and first-mover advantage
 - ❖ External inspection project for Shanghai Natural Gas Pipeline
 - ❖ Internal inspection projects for CNPC Shanjing Pipeline Phase III and Datang Coal Gas Pipeline

Note:
1. The total revenue of coating materials, line pipe coating services, CRA and CWC in 1H 2013.

Oilfield Equipment Manufacturing and Services



Segment Revenue Remained Steady



Note:

1. The total revenue of drill pipes and related products and OCTG coating services in 1H 2013

Maintained Leading Position with Growing Overseas Presence

Drill pipes & related products

- ❖ Maintained leading and stable market positions
- ❖ Significant breakthrough in overseas sales with increased acceptance from international customers
 - ❖ Overseas sales increased by 48% YoY with revenue contribution at 66%
- ❖ Notable development in promoting high-end products

OCTG coating services

- ❖ Successful acquisition of TIPC
 - ❖ Significant capacity expansion
 - ❖ Helpful in promoting the advanced powder-based coating materials and services in China
 - ❖ Another successful move in the North American market and the overall market influence to be reinforced in the local market
- ❖ Adjusted domestic capacity to meet the market demand

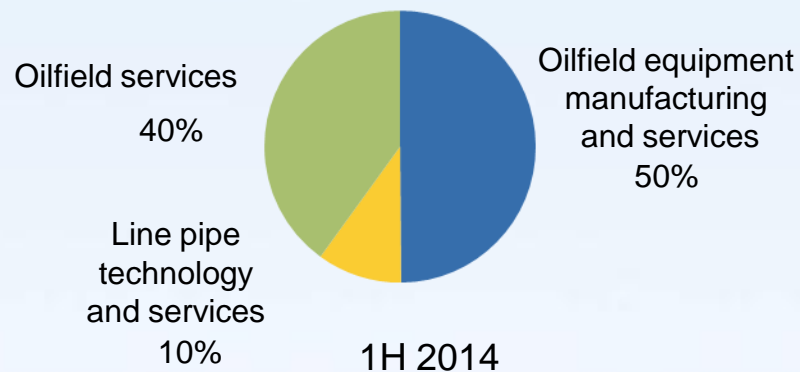
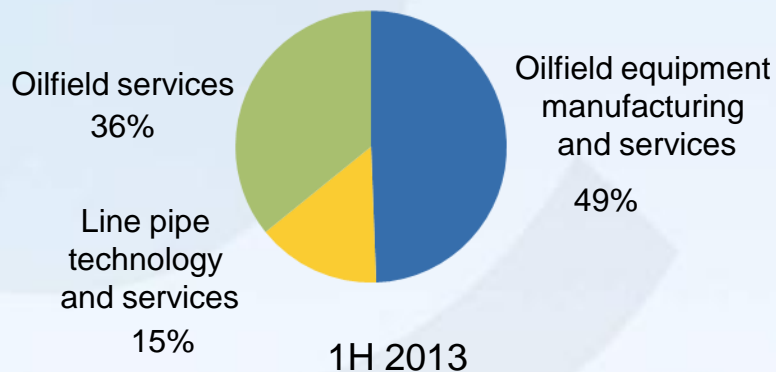


Financial Performance

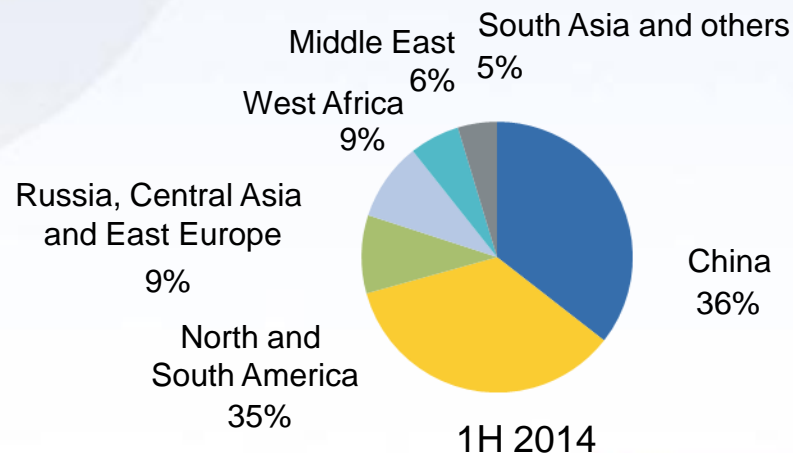
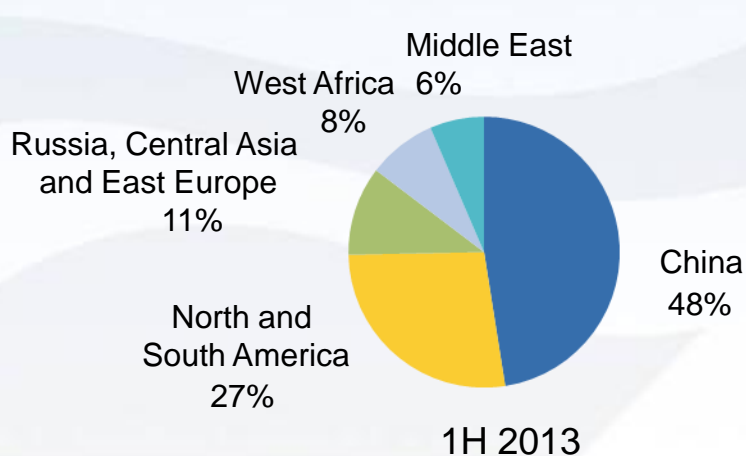
Revenue Breakdown



Revenue Breakdown by Products



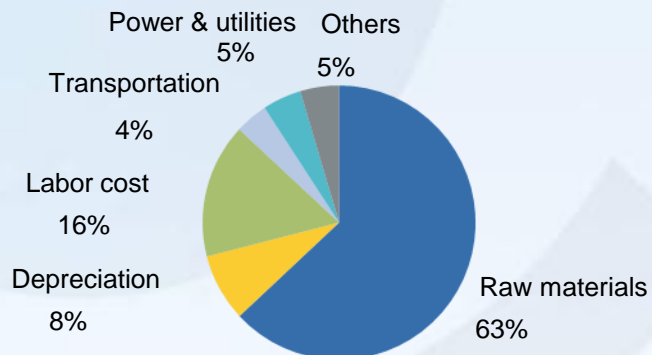
Revenue Breakdown by Geography



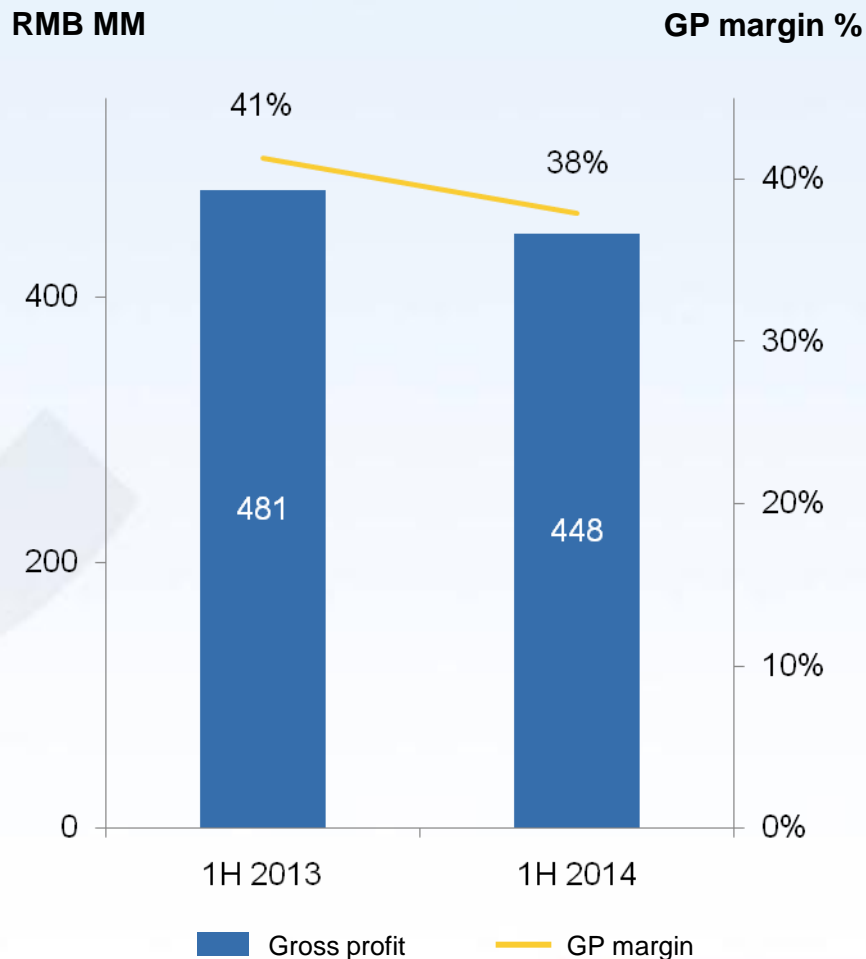
Cost and Gross Profit Analysis



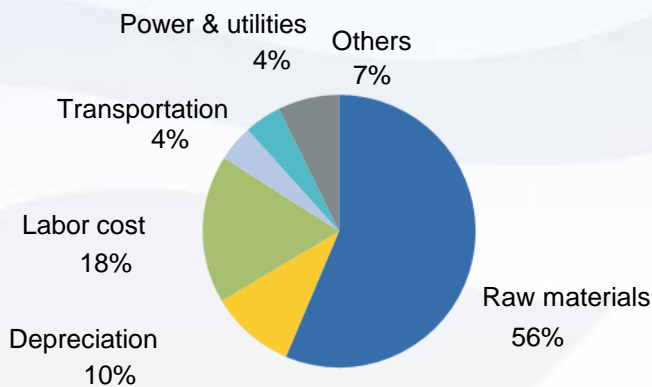
1H 2013 Total Cost: RMB684 MM



Gross Profit Decreased by 7%



1H 2014 Total Cost: RMB734 MM

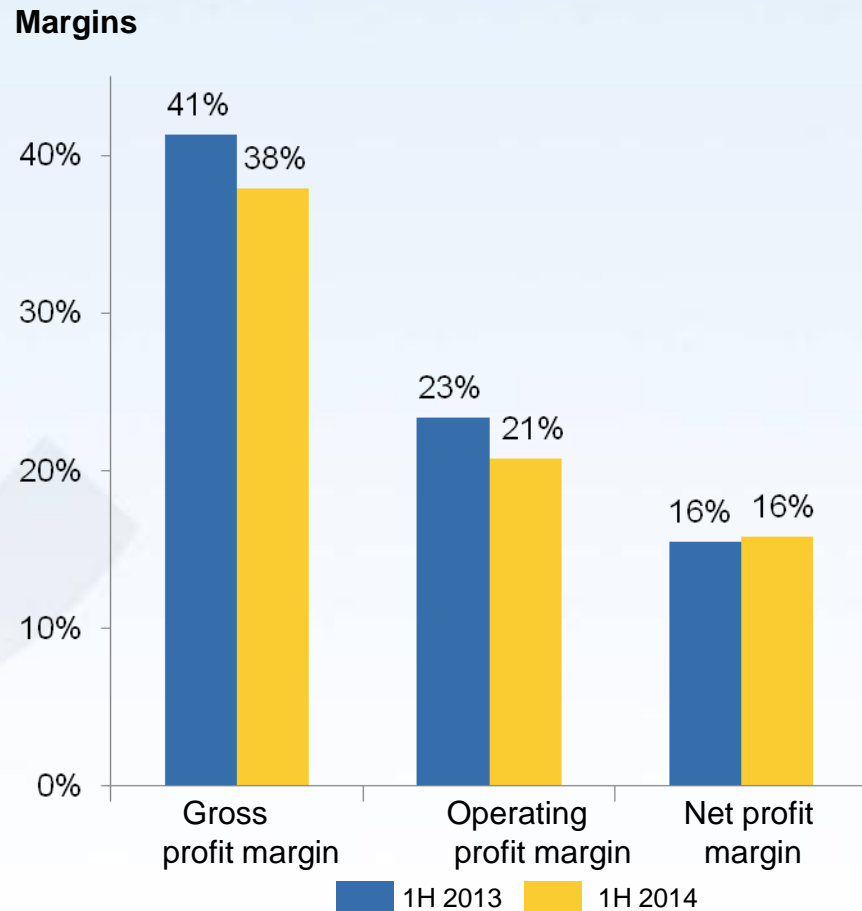
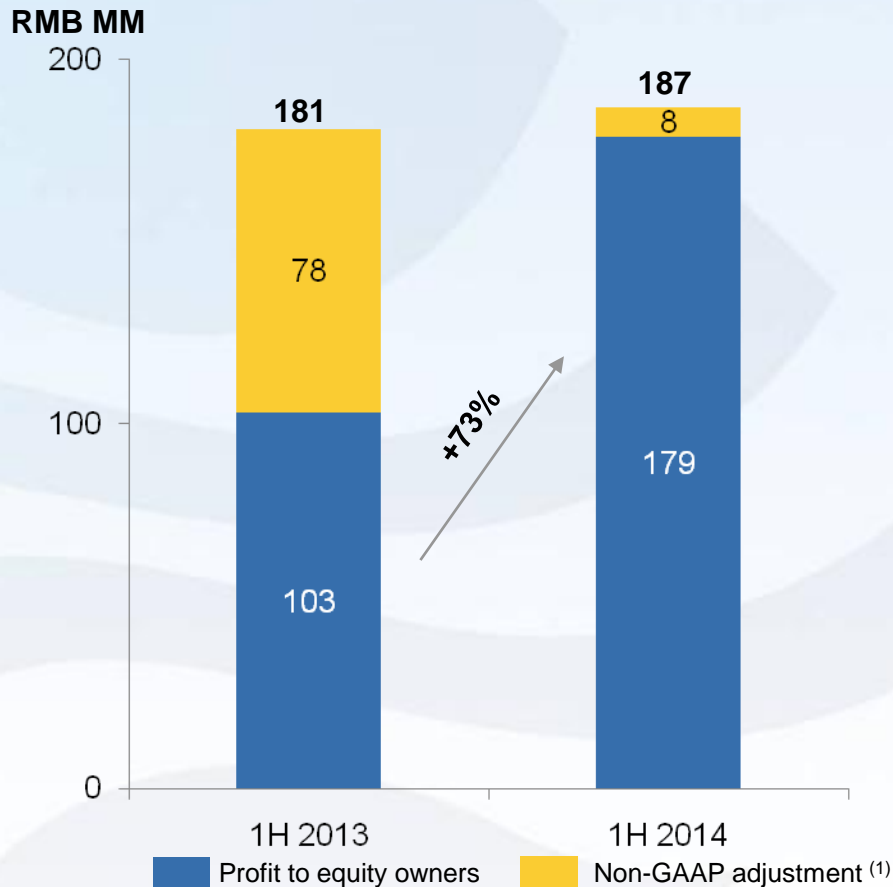


Profitability



Net Profit: +73%

Profitability Relatively Stable⁽²⁾



Note:

1. Non-GAAP adjustment includes losses in changes in fair value of the embedded derivative of the convertible bonds, fair value losses/(gains) on swap and certain share-based compensation expenses
2. The operating profit margin and net profit margin are after Non-GAAP adjustment

Capital Structure and Return



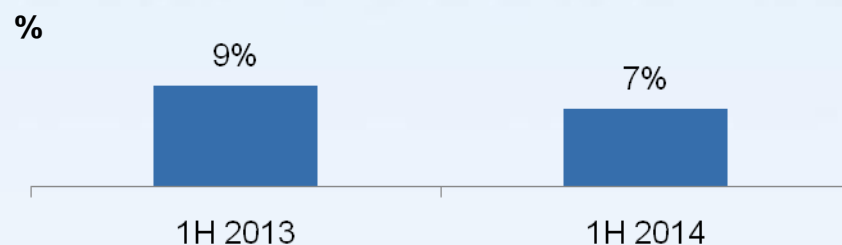
Capital Structure

RMB MM	2013	1H 2014
Cash & cash equivalents	391	731
Current assets	2,794	3,368
Total assets	4,807	5,775
Short-term debt	654	642
Long-term debt	507	1,458
Total liabilities	1,934	2,828
Shareholders' equity	2,655	2,730
Minority interests	218	217
Total equity	2,874	2,948

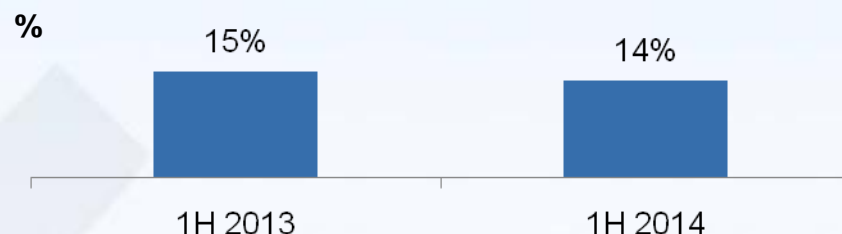
Note:

1. Non-GAAP net profit / ending balance of total assets
2. Non-GAAP net profit / ending balance of shareholders' equity
3. Net Debt = Long term debt + short term debt – cash and cash equivalents, total cap = shareholders' equity + minority interests + net debt

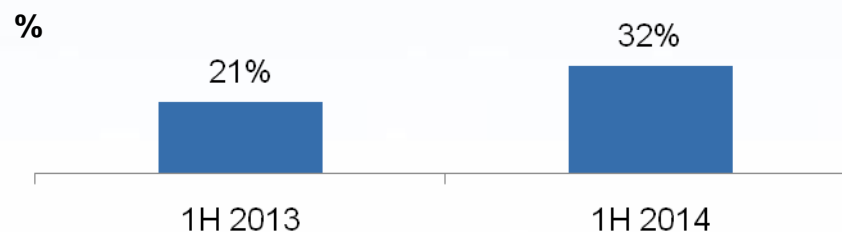
Return on Assets (1)



Return on Equity (2)



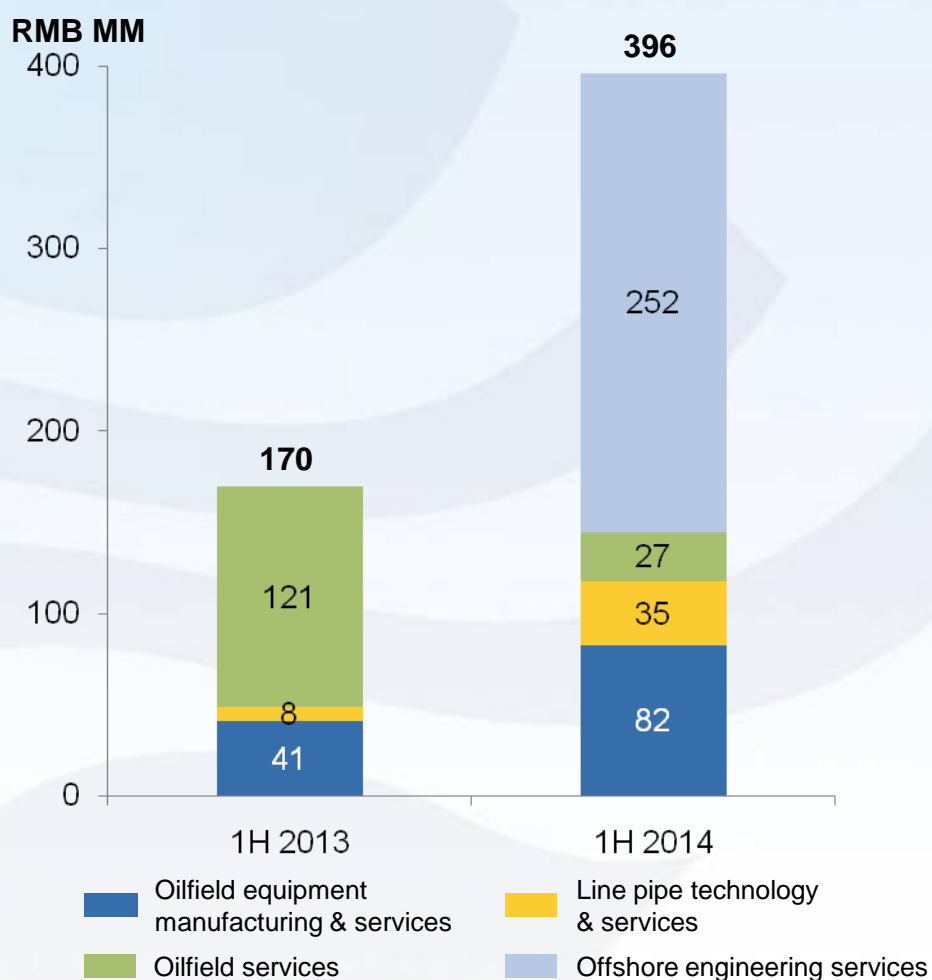
Gearing Ratio: Net Debt / Total Cap (3)



Capital Expenditure



1H 2014 Capital Expenditure Breakdown



Major Capital Expenditure Projects

Offshore engineering services
Purchase of Hilong 106

Oilfield services
Procurement of rig components

Line pipe technology & services
Upgrade of CRA production line

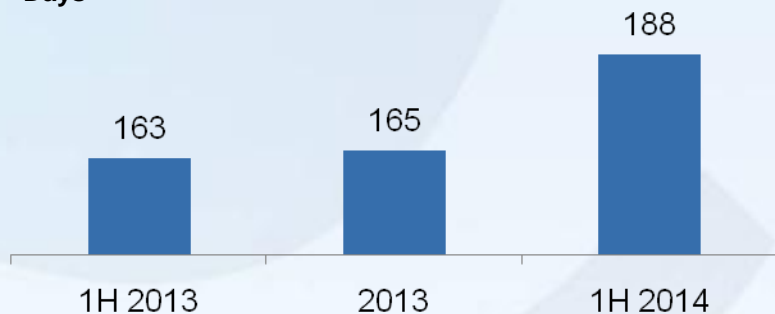
Oilfield equipment manufacturing & services
Acquiring the properties of OCTG coating service plant in Canada

Liquidity and Turnover Days



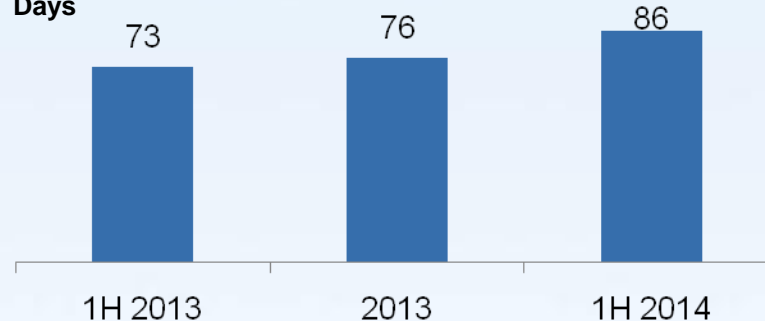
Inventory Turnover Days ⁽¹⁾

Days

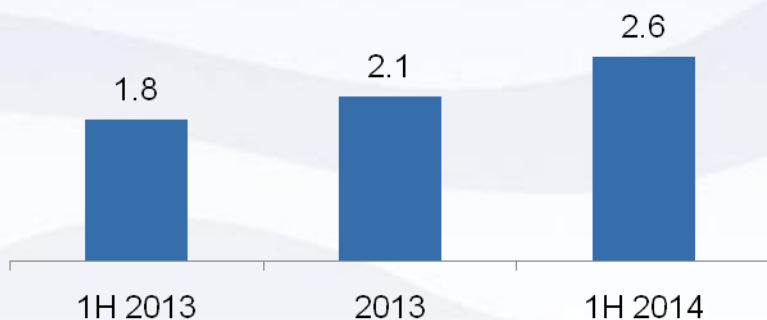


Average Trade Payable Days ⁽²⁾

Days

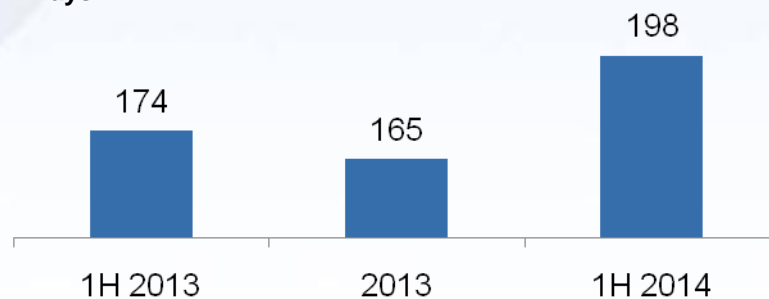


Current Ratio



Average Trade Receivable Days ⁽³⁾

Days



Note:

1. Inventory days = days in the period * average inventory of this period / cost of sales of this period
2. Average trade payables days = days in the period * average trade payables of this period / cost of sales of this period
3. Average trade receivable days = days in the period * average net trade receivables of this period / revenue of this period



Business Outlook



Maintain Stable Development and Build the Premium Brand Name

A Solid First Step in the Most High-end Onshore Drilling Services Field

- ❖ Successful operation of the 1st 3,000HP drilling rig HL-27 in Nigeria
- ❖ Brought more global premium customers and high-end service contracts



Solidifying the Advantage in High-end Market

- ❖ Signed the contract with Kuwait Foreign Petroleum Exploration Company to provide drilling services with a 2,000HP drilling rig in Pakistan
- ❖ Significant enhancement of market position in South Asia
- ❖ Effectively promote the scale of operation in Pakistan
- ❖ Global leading competitive strength widely recognized
- ❖ Another major breakthrough in high-end oilfield services market expansion

- ❖ Increase the revenue contribution from comprehensive services

- ❖ Further strengthen the cooperation with international renowned customers

Line Pipe Technology and Services



Traditional Line Pipe Coating Services

❖ Continue to develop the overseas markets, reduce dependence on domestic projects and improve international competitive strength



Newly Developed Line Pipe Coating Services

❖ Achieve the large-scale production and improve profitability

Line Pipe Inspection Services

❖ Fully utilize the first-mover advantage to cultivate the line pipe inspection services and grow the market share



Oilfield Equipment Manufacturing and Services



Stable Development for Drill Pipes

- ❖ Continue to expand overseas markets and enhance international influence
- ❖ Focus on exploring demand for premium products from key customers in the domestic market
 - ❖ Stick to the high-end product strategy and develop new products to follow the market demand
- ❖ Launch drilling tools related services
 - ❖ Dedicated to providing one-stop solutions and other value-added services
 - ❖ To effectively promote the premium products and strengthen Hilong's brand name

New Growth Opportunities for OCTG Coating Services

- ❖ Acquisition of TIPC
 - ❖ Create synergy for the operation in North America with the plant in Canada
 - ❖ Effectively promote the overseas expansion and further reinforce the global market position
- ❖ Reorganization of capacity in China
 - ❖ Capacity adjusted to adapt for the future changes of market demand in advance

Offshore Engineering Services



Successful Establishment of the Segment with Remarkable Progress Achieved

Hilong 106 to commence operation

- ❖ Hilong 106 will depart to the sea area of operation and be officially put into service soon

Offshore engineering design services in good progress

- ❖ Received wide recognition from the market for the offshore engineering design team
- ❖ Signed a cooperation agreement to provide independent third-party technical consultation and won the relevant contracts

Great Development Potential for Hilong Given Promising Market Prospects

- ❖ China will accelerate developing offshore oil and gas resources. Demand for offshore pipe-laying vessels applicable in the water depth less than 300 meters will significantly grow in the future
- ❖ Far East⁽¹⁾ accounts for 23% of the global demand for offshore pipe-laying vessels and boasts the world's largest regional market
- ❖ Applicable to the sea area of China and the nearby Southeast Asian markets, Hilong 106 will see great market potential

China's Offshore Oil & Gas Resources Distribution ⁽²⁾



Resources concentrated in area with water depth less than 300 meters

Note:
1. Including East Asia, Southeast Asia and South Asia, based on market data of year 2013
2. The part shaded in blue represents the main areas for China's offshore oil and gas resources distribution
Resources: Spears Associates, public information