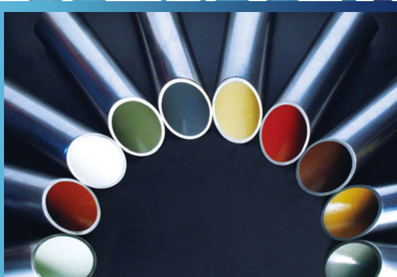
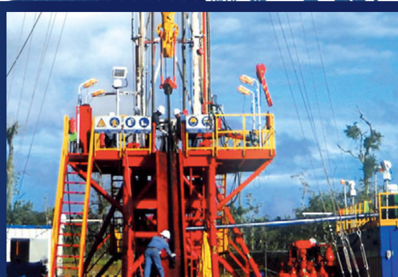
海隆控股有限公司*

Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1623


INTERIM REPORT 2013

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jun (張軍)
(Chairman and Chief Executive Officer)
Mr. Wang Tao (汪濤)
(Executive President)
Mr. Ji Min (紀敏)
(Chief Financial Officer)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
(Chief Strategy Officer)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Li Huaiqi (李懷奇)

Independent Non-executive Directors

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

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

Mr. Lee Siang Chin
(Chairman of Audit Committee)
Mr. Wang Tao (王濤)
Ms. Zhang Shuman (張姝嫚)

REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Remuneration Committee)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Lee Siang Chin

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Liu Qihua (劉奇華)

JOINT COMPANY SECRETARIES

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

AUDITOR

PricewaterhouseCoopers

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch

STOCK CODE

1623

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FINANCIAL REVIEW

Revenue

The following table sets forth the revenue of Hilong Holding Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**" or "**Hilong**") by business segments for the periods indicated:

	Six months ended 30 June			
	2013		2012	
	RMB'000	**%**	RMB'000	%
Drill pipes and related products				
– Drill pipes	**420,788**	**36.1**	381,327	41.0
– Drill pipe components	**14,711**	**1.3**	5,536	0.6
– Hardbanding	**5,557**	**0.5**	7,752	0.8
– Equipment	**317**	**0.0**	7,115	0.8
– Others	**9,279**	**0.8**	11,212	1.2
Subtotal	**450,652**	**38.7**	412,942	44.4
Coating materials and services				
Oil Country Tubular Goods ("**OCTG**")				
– Coating materials	**17,161**	**1.5**	17,106	1.8
– Coating services	**124,455**	**10.7**	74,290	8.0
Oil and gas line pipe				
– Coating materials	**59,775**	**5.1**	64,824	7.0
– Coating services	**96,049**	**8.2**	116,983	12.6
Subtotal	**297,440**	**25.5**	273,203	29.4
Oilfield services	**417,076**	**35.8**	243,540	26.2
Total revenue	**1,165,168**	**100.0**	929,685	100.0

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

	Six months ended 30 June			
	2013		2012	
	RMB'000	**%**	RMB'000	%
The PRC	**553,207**	**47.5**	515,558	55.4
North and South America	**317,163**	**27.2**	198,505	21.4
Russia, Central Asia and East Europe	**124,155**	**10.6**	101,734	10.9
West Africa	**94,904**	**8.2**	65,026	7.0
Middle East	**75,739**	**6.5**	48,862	5.3
	1,165,168	**100.0**	929,685	100.0

Revenue increased by RMB235.5 million, or 25.3%, from RMB929.7 million for the six months ended 30 June 2012 to RMB1,165.2 million for the six months ended 30 June 2013 (the "**Interim Period**"). Such increase primarily reflected an increase in revenue from oilfield services segment and, to a lesser extent, from drill pipes and related products segment and the coating materials and services segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment increased by RMB37.7 million, or 9.1%, from RMB412.9 million for the six months ended 30 June 2012 to RMB450.7 million for the Interim Period. Such increase primarily reflected an increase in revenue derived from sales of drill pipes.

The following table sets forth the revenue analysis of the drill pipe sales for the periods indicated:

	Six months ended 30 June	
	2013	2012
Sales of drill pipes		
– International market		
– volume (tons)	**7,922**	7,415
– unit price (RMB/ton)	**24,151**	22,076
Subtotal (RMB’000)	**191,312**	163,695
– PRC market		
– volume (tons)	**10,008**	9,330
– unit price (RMB/ton)	**22,929**	23,326
Subtotal (RMB’000)	**229,476**	217,632
Total (RMB’000)	**420,788**	381,327

Revenue from sales of drill pipes in the international market increased by RMB27.6 million, or 16.9%, from RMB163.7 million for the six months ended 30 June 2012 to RMB191.3 million for the Interim Period. The increase primarily reflected a 9.4% increase in the average selling price in the international market from RMB22,076 per tonne for the six months ended 30 June 2012 to RMB24,151 per tonne for the Interim Period, coupled with a 6.8% increase in the volume of drill pipes sold from 7,415 tonnes for the six months ended 30 June 2012 to 7,922 tonnes for the Interim Period. The increase in the average selling price primarily reflected higher portion of revenue from high-end products. The increase in the sales volume primarily reflected the enhancement of Hilong’s brand recognition in international market and the expansion of our international market share.

Revenue from sales of drill pipes in the PRC market increased by RMB11.8 million, or 5.4%, from RMB217.6 million for the six months ended 30 June 2012 to RMB229.5 million for the Interim Period. The increase primarily reflected a 7.3% increase in volume of drill pipes sold in the PRC market from 9,330 tonnes for the six months ended 30 June 2012 to 10,008 tonnes for the Interim Period, partially offset by a 1.7% decrease in average selling price sold in the PRC market from RMB23,326 per tonne for the six months ended 30 June 2012 to RMB22,929 per tonne for the Interim Period. The increase in the sales volume primarily reflected (i) the Group's continuous effort to promote customized drill pipes in the PRC market, and (ii) an increased level of demand in the Group's drill pipes and capital spending by oil and gas companies in the PRC market, especially China National Petroleum Corporation ("**CNPC**") and Sinopec Group Company ("**Sinopec**"), partially offset by the fact that the Group sold more than 3,000 tonnes drill pipes to certain domestic drilling rig manufacturer for its rigs sold to South America for the six months ended 30 June 2012 while we have not done similar business with this drill rig manufacturer in the Interim Period. The decrease in average selling price primarily reflected the fact that we processed over 600 tonnes of drill pipes with consigned tool joints provided by customers in the Interim Period. These drill pipes were sold at lower prices and with lower costs, while the gross profit margin remained at same level as that of other drill pipes.

Coating materials and services. Revenue from the coating materials and services segment increased by RMB24.2 million, or 8.9%, from RMB273.2 million for the six months ended 30 June 2012 to RMB297.4 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from OCTG coating services, partially offset by the decrease in the revenue from oil and gas line pipe coating services.

The increase in revenue from OCTG coating services primarily reflected an increase in our manufacturing capacity and utilization rate in providing OCTG coating services coupled with a higher market penetration for tubing and casing coating services for the Interim Period as compared to that for the six months ended 30 June 2012.

The decrease in revenue from oil and gas line pipe coating services primarily reflected our focus on complex and large-scale projects. We have engaged in a complicated oil and gas line pipe coating project during the Interim Period, which involved longer preparation and processing period than that of regular oil and gas line pipe coating. Furthermore, for large-scale projects, deliveries were conducted in batches when the volume of coated pipes reached certain level, and only then the revenue was recognized.

Oilfield services. Revenue from the oilfield services segment increased by RMB173.5 million, or 71.3%, from RMB243.5 million for the six months ended 30 June 2012 to RMB417.1 million for the Interim Period. Such increase was attributable to (i) higher oilfield services revenue earned as more drilling rigs were on-site for the Interim Period as compared to the six months ended 30 June 2012 and (ii) the increase in trading revenue of tubing and casing products purchased from third parties to oilfield services clients.

Cost of Sales/Services

Cost of sales increased by RMB126.0 million, or 22.6%, from RMB558.1 million for the six months ended 30 June 2012 to RMB684.1 million for the Interim Period. Such increase primarily reflected an increase in cost of tubing and casing purchased for sales to oilfield services customers, and depreciation of drilling equipments and other related costs associated with the expansion of oilfield services segment for the Interim Period compared with those for the six months ended 30 June 2012.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit increased by RMB109.5 million, or 29.5%, from RMB371.5 million for the six months ended 30 June 2012 to RMB481.0 million for the Interim Period. Gross margin increased from 40.0% for the six months ended 30 June 2012 to 41.3% for the Interim Period. The increase in gross margin primarily reflected an increase in gross margin from drill pipes and related products segment, and coating materials and services segment.

Gross margin of drill pipes and related products segment increased from 37.3% for the six months ended 30 June 2012 to 39.4% for the Interim Period, reflecting a higher portion of revenue derived from high-end and tailor-made drill pipes.

Gross margin of coating materials and services segment increased from 44.1% for the six months ended 30 June 2012 to 46.9% for the Interim Period, reflecting a higher portion of revenue derived from OCTG coating services, which generally have higher gross margin.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB12.4 million, or 27.8%, from RMB44.6 million for the six months ended 30 June 2012 to RMB57.0 million for the Interim Period, mainly reflecting an increase of revenue for the Interim Period. The percentage of selling and marketing expenses to revenue remained stable during the two periods.

Administrative Expenses

Administrative expenses increased by RMB10.8 million, or 8.6%, from RMB125.1 million for the six months ended 30 June 2012 to RMB135.9 million for the Interim Period. Such increase primarily reflected an increase in staff costs and office expenses incurred in connection with the expansion of business, partially offset by the fact that the Group reversed RMB3.0 million specific provision for impairment of certain receivables as such had been collected in the Interim Period.

Other Losses – Net

The Group recognized net loss of RMB6.0 million for the six months ended 30 June 2012 and RMB92.5 million for the Interim Period. The net loss recognized for the Interim Period primarily reflected (i) a loss of RMB74.0 million in changes in fair value of the embedded derivative of the convertible bonds, and (ii) a net loss of RMB28.6 million in foreign exchange losses, partially offset by RMB8.5 million in government grants in relation to new and high-technology projects. The net loss recognized for the six months ended 30 June 2012 primarily reflected RMB12.3 million in net losses on disposal of property, plant and equipment, partially offset by RMB5.1 million in foreign exchange gain. The increase in foreign exchange losses reflected that (i) the deprecation of USD and CAD against RMB in the Interim Period; (ii) increase of foreign exchange losses arose from inter-company transaction balances between the Company's subsidiaries with different functional currencies. These exchange losses remain unrealized and cannot be eliminated on consolidation though the underlying transactions have been eliminated; and (iii) the management increased USD debt to naturally hedge the foreign exchange exposure of USD monetary assets, while such foreign exchange differences for USD debt was recognized in finance costs.

Finance Costs

Finance costs decreased by RMB5.4 million, or 15.5%, from RMB34.8 million for the six months ended 30 June 2012 to RMB29.4 million for the Interim Period. Such decrease primarily reflected (i) an increase of foreign exchange gain related to bank borrowings denominated in currency other than the Company's functional currency, and (ii) a decrease of interest in relation to the liability component of the convertible bonds due to the conversion of the convertible bonds by the bondholder to shares of the Company in the Interim Period, partially offset by the increase of interest expense on bank borrowings due to increase of bank borrowings in the Interim Period.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB159.4 million for the six months ended 30 June 2012 to RMB161.3 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB17.3 million for the six months ended 30 June 2012 and RMB43.2 million for the Interim Period. Effective tax rate was approximately 10.8% for the six months ended 30 June 2012 and 26.8% for the Interim Period. The increase in effective tax rate was mainly attributable to the RMB74.0 million non-deductible losses from changes in fair value of the embedded derivative of the convertible bonds recognized in the Interim Period.

Profit for the period

As a result of the foregoing, profit for the period decreased from RMB142.1 million for the six months ended 30 June 2012 to RMB118.1 million for the Interim Period.

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain non-GAAP financial measures have been presented in this financial review. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Company's financial performance prepared in accordance with HKFRS.

The Company believes that, in conjunction with GAAP financial measures, the non-GAAP financial measures provide meaningful supplemental information to both investors and management in assessing the Group's performance and planning for future periods.

The following non-GAAP financial measures do not include all items that impact the Group's financial performance prepared in accordance with HKFRS. It excludes (i) share-based compensation expenses which have been and might continue to be non-cash expenses in the Group's financial performance prepared in accordance with HKFRS, and (ii) losses in changes in fair value of the embedded derivative of the convertible bonds, which have been significant non-cash expenses in the Group's financial performance prepared in accordance with HKFRS for the Interim Period. However such losses will not continue to affect the Group's financial performance as all of the convertible bonds were fully converted into Company's ordinary shares in the Interim Period. The non-GAAP financial measures may not be comparable to similarly titled measure utilized by other companies since such other companies may not calculate such measure in the same manner as the Company does.

The Company expects to compute the non-GAAP financial measures using consistent methods going forward. The following table sets forth the reconciliations of the non-GAAP financial measures for Interim Period and the six months ended 30 June 2012 to the nearest measures prepared in accordance with HKFRS:

	Six months ended 30 June 2013			
		Adjustments		
	As Reported RMB'000	Share-based compensation RMB'000	Changes in fair value of the embedded derivative of the convertible bonds (a) RMB'000	Non-GAAP RMB'000
Operating profit	195,667	3,532	73,960	273,159
Profit before income tax	161,289	3,532	73,960	238,781
Profit attributable to equity owners of the Company	103,399	3,532	73,960	180,891
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	0.0634			0.1109

	Six months ended 30 June 2012			
		Adjustments		
	As Reported RMB'000	Share-based compensation RMB'000	Changes in fair value of the embedded derivative of the convertible bonds (a) RMB'000	Non-GAAP RMB'000
Operating profit	195,903	5,446	3,085	204,434
Profit before income tax	159,358	5,446	3,085	167,889
Profit attributable to equity owners of the Company	130,193	5,446	3,085	138,724
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	0.0818			0.0872

Note:

(a) The Company issued convertible bonds to CITIC Capital China Access Fund Limited ("CITIC") at total nominal value of HK$233,250,000 on 9 December 2011, with an interest rate of 3.5% per annum. As the convertible bonds are denominated in a currency other than the Company's functional currency which is RMB, the convertible bonds comprise a host debt instrument denominated in Hong Kong Dollar ("HKD") and a conversion option to exchange a fixed number of the Company's own equity instrument for a fixed amount of cash that is denominated in HKD. The conversion option is not an equity instrument, but an embedded derivative that is not closely related to the host debt instrument, because the risk inherent in the derivative and the host are dissimilar. Therefore, the conversion option is separated and classified as an embedded derivative, and initially recognized at fair value assessed using valuation techniques.

Subsequent to initial recognition, the embedded derivatives are carried at fair value. The changes in the fair value are charged to income statements when occurred.

The convertible bonds have been fully converted to the Company's ordinary shares as at 30 June 2013.

The non-GAAP operating profit, non-GAAP profit before income tax and non-GAAP profit attributable to equity owners of the Company increased by 33.6%, 42.2% and 30.4% respectively for the Interim Period compared to those for the six months ended 30 June 2012. The increase primarily reflected that (i) revenue increased by 25.3% for the Interim Period compared to that for the six months ended 30 June 2012, and (ii) gross margin increased from 40.0% for the six months ended 30 June 2012 to 41.3% for the Interim Period.

Inventories

Inventories generally consist of raw materials, work-in-progress and finished goods, as well as packing materials and low value consumables. The following table sets forth the inventory balances as at the dates indicated as well as the turnover of average inventory for the periods indicated:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Inventory	637,046	586,344
Turnover days of inventory (in days)(1)	163	146

(1) Turnover days of inventory for a period or a year equal average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2012. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase in inventory turnover days from 146 days as at 31 December 2012 to 163 days as at 30 June 2013 primarily reflected an increase in inventory balance associated with (i) increase of raw materials and finished drill pipes for drill pipe and related products segment as more orders are expected to be delivered in the following months, which is in line with the industry seasonality, (ii) the increased finished pipes for oil and gas line pipe coating projects, of which deliveries were conducted in batches when the volume of finished coated pipes reached certain level, and (iii) the increased raw materials purchased for Concrete Weighted Coating production line.

Trade and Other Receivables

Trade and other receivables consist of trade receivables (due from third parties and related parties), other receivables, bills receivable and prepayments. The following table sets forth the components of the trade and other receivables outstanding as at the dates indicated:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade receivables		
– Due from third parties	1,169,773	1,041,354
– Due from related parties	25,623	26,282
– Less: Provision for impairment of receivables	(15,546)	(23,383)
Trade receivables – net	1,179,850	1,044,253
Other receivables		
– Due from third parties	59,811	53,805
– Due from related parties	70,859	65,860
Other receivables	130,670	119,665
Bills receivable	44,538	72,799
Prepayments	141,158	148,508
Others	5,777	–
Total	1,501,993	1,385,225

Net trade receivables represent receivables from the sales of products and provision of services to third party customers and related parties, less impairment of receivables. The following table sets forth an aging analysis of trade receivables due from third party and related parties as at the dates indicated and turnover days of the net trade receivables as at the dates indicated:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade receivables, gross		
– Within 90 days	**715,185**	748,401
– Over 90 days and within 180 days	**120,032**	112,495
– Over 180 days and within 360 days	**240,355**	81,418
– Over 360 days and within 720 days	**70,157**	82,096
– Over 720 days	**49,667**	43,226
	1,195,396	1,067,636
Turnover days of trade receivables, net(1)	**174**	166

(1) Turnover days of trade receivables for a period or a year equal average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2012. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

As at 30 June 2013, trade receivables of RMB464.7 million, representing 38.9% of the Group's trade receivables before impairment, remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from the subsidiaries' related party entities. As at the date indicated, the Board believes that there had been no change in their credit history or quality and the balances would be fully collectable. The Group did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, the Board believes that no additional provision for impairment was necessary in respect of these balances.

The increase in turnover days of trade receivables from 166 days as at 31 December 2012 to 174 days as at 30 June 2013 primarily reflected that settlement for trade receivables was less active in the first half of the year than that in the second half of the year in the PRC market.

Trade and Other Payables

Trade and other payables primarily consist of trade payables (due to third parties and related parties), other payables, bills payable, staff salaries and welfare payables, advance from customers, interest payable, accrued taxes other than income tax and dividends payable. The following table sets forth the components of trade and other payables outstanding as at the dates indicated:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Bills payable	97,966	130,176
Trade payables		
– Due to related parties	2,933	–
– Due to third parties	280,399	266,461
Other payables		
– Due to third parties	59,823	42,316
Staff salaries and welfare payables	24,006	34,097
Advance from customers	59,457	82,757
Interest payables	556	1,456
Accrued taxes other than income tax	–	9,537
Dividends payable	11,087	10,933
Other liabilities	5,844	5,042
	542,071	582,775

Trade payables represent payables due to third party suppliers and related parties. The following table sets forth an aging analysis of trade payables due to third parties and related parties as at the dates indicated and turnover days of trade payables for the dates indicated:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade payables, gross		
– Within 90 days	229,487	136,215
– Over 90 days and within 180 days	10,496	36,435
– Over 180 days and within 360 days	14,694	85,149
– Over 360 days and within 720 days	23,095	5,361
– Over 720 days	5,560	3,301
	283,332	266,461
Turnover days of trade payables[1]	73	79

(1) Turnover days of trade payables for a period or a year equal average trade payables divided by total cost of sales and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2012. Average trade payables equal balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2012 to 30 June 2013 reflected the procurement of the drilling rigs.

DIVIDENDS

During the Interim Period, a final dividend of HK7.6 cents per share of the Company, amounting to a total dividend of approximately HK$124.0 million (equivalent to approximately RMB98.7 million) for the year ended 31 December 2012, was paid to shareholders of the Company.

The Board resolved not to declare any interim dividend for the Interim Period.

BUSINESS REVIEW

In the first half of 2013, Hilong achieved excellent results in all three business segments. The satisfactory improvement in the Company's capabilities of R&D, production capacity, market development and management during the Interim Period has enabled the Company to achieve a significant growth in both revenue and profits. In the first half of 2013, the Company's revenue increased by 25.3% as compared to the same period of 2012 and reached RMB1,165.2 million. Excluding the influence arising from loss from changes in fair value of the embedded financial derivative of the Convertible Bonds and share-based compensation expenses, the non-GAAP profit attributable to equity owners of the Company significantly surged to RMB181.0 million for the first half of 2013 from RMB138.7 million for the same period of 2012, representing a year-on-year growth of 30.4%. In addition to the expansion of business scale, the Group has also achieved remarkable outcome in its growth strategy of continuously focusing on delivering high-end products and services and accelerating the international expansion. Revenue from international market further increased to 52.5% of our total revenue from 44.6% for the first half of 2012. Focusing on delivering high-end products and services has enabled the Group to expand its business scale and maintain high level of profitability at the same time. The Group's gross profit margin rose to 41.3% from 40.0% for the same period of 2012.

Drill pipes and related products

The Group's revenue from drill pipes and related products segment for the first half of 2013 reached RMB450.7 million, representing an increase of 9.1% as compared to the same period of 2012. The gross profits grew by 15.4% and reached RMB177.7 million. Revenue from this segment was primarily derived from the sales of drill pipes. The sales volume of drill pipes reached 17,930 tonnes, and sales amount reached RMB420.8 million, representing a 10.3% increase as compared to the same period of 2012.

Hilong has made a remarkable optimization to its products structure during the Interim Period. The revenue contribution from high-end non-API products increased substantially as compared with the same period of 2012. Aiming at the demand from domestic and overseas drilling environment, the direction of Hilong's R&D concentrated on ultra-deep wells, deep water wells, unconventional oil and gas well, horizontal wells for exploiting conventional gases, etc. Double shoulders and high torque-resistant drill pipes are the major high-end non-API products sold during the Interim Period. Meanwhile, the Company also launched a series of new special products to the market for the first time, such as the 13-inch extended reach well drill pipes and the landing strings for ocean casing, which are well received by industry experts and clients. The average selling price of Hilong's drill pipes in the Interim Period rose by 3.1% compared to that in the first half of 2012 due to the higher contribution of high-end products.

Coating service and materials segment

The coating service and materials segment recorded a revenue of RMB297.4 million for the first half of 2013. Its gross profit increased to RMB139.5 million from RMB120.4 million for the same period last year, representing a growth of 15.8%. For the segment structure, Hilong has been dedicated to continuously implementing its strategy of focusing on high-end services and products, and has been concentrating its resources on developing OCTG coating services and coating materials with high gross profit margin. OCTG coating service and coating materials business recorded a revenue of RMB141.6 million, representing a 55.0% increase as compared to the same period of 2012, while its contribution to the coating services and materials segment rose to 41.8% from 27.2% of the same period of 2012. Oil and gas line pipe coating services and material business recorded a revenue of RMB155.8 million.

Hilong's OCTG coating service business achieved another breakthrough in the first half of this year. Hilong successfully increased the production capacity for the existing OCTG plants through technological transformation and management improvement, further breaking the production capacity bottleneck.

In respect of oil and gas line pipe coating services and materials, Hilong continued to focus on large-scale overseas projects with high gross profit. In the first half of 2013, Hilong successfully won the tender for several overseas high-end projects, such as Missan oilfield development project in Iraq and GLNG upstream project from Fluor Corporation in Australia. This further demonstrates the leading position of Hilong in the corrosion resistance technology for line pipes. For the new products and services area, Hilong's corrosion resistance alloy lined pipe launched in 2012 received high recognition from the market. In 2013, the Company plans to increase its production capacity to 100,000 – 150,000 tonnes, which will lay a foundation for its future development. Meanwhile, the production line for Concrete Weighted Coating project commenced production on 24 April 2013, marking Hilong's official advance into the area of anti-corrosion for offshore line pipes.

Oilfield service

In the first half of 2013, Hilong's oilfield service segment recorded cheerful results. Revenue from the oilfield service segment for the period reached RMB417.1 million, representing a growth of 71.3% from the same period last year, and the gross profit significantly rose by 68.8% over the same period of 2012 from RMB97.1 million to RMB163.9 million. Such increases were primarily attributable to the increase in the day-rate services revenue derived from the additional drilling rigs operating in Nigeria and Ecuador as compared to the first half of 2012 and the growth in comprehensive service business which significantly increased the profitability of the existing drilling rigs. During the Interim Period, two of our drilling rigs in the Kazakhstan market completed 24 wells under the turnkey contract. Meanwhile, the tubing and casing supply chain service also achieved remarkable development in the first half of 2013.

The oilfield service segment not only attained favorable growth in revenue, but also achieved a substantial breakthrough in high-end market development. During the Interim Period, Hilong successfully obtained a new service contract in relation to high-temperature and high-pressure drilling rig of 3,000HP from Shell, a renowned global energy enterprise, following the signing of drilling rig service contracts with Shell for two consecutive years in 2011 and 2012. The signing of the new service contract with Shell further demonstrates Hilong's world leading competitiveness in the field of onshore drilling. As for market expansion into new regions, Hilong further enhanced its influence in the Central and Southern Asian market by winning a service contract in relation to two large drilling rigs of 2,000HP and 1,500HP from United Energy Pakistan. The signing of this contract lays a solid foundation for our future extension from turnkey service to large drilling and deep well work.

PROSPECTS

Looking ahead to the second half of 2013, Hilong is confident in its business growth. With increasingly complex drilling environment and further exploration of offshore and unconventional oil and gas resources, there will be an extensive market for Hilong's high-end products and services. Hilong will continue to implement its growth strategy: maintaining the leading position in the domestic market while exploring the international market and continuing to pursue internationalization. Meanwhile, Hilong will focus on the R&D of high-end products and break through the bottleneck in production capacity of coating services, so as to enhance its profitability.

In respect of the drill pipes and related products segment, Hilong will keep focusing on product development for unconventional oil and gas resources and harsh and complicated environment. In respect of the coating service and materials segment, Hilong will continue to make efforts on OCTG coating service business and complete the construction of the coating plant in Yanchang Oilfield (延長油田) in Shaanxi. Hilong will expand the productivity of the existing coating plants by technological transformation and management enhancement. In relation to the line pipe coating and materials, the high-tech products of the Group developed in the recent years such as the Concrete Weighted Coating project and the corrosion resistance alloy lined pipes will become strong driving forces for growth. The oilfield service team will continue to perform the overseas drilling service contracts. Based on these services, Hilong will enhance its ability in comprehensive services while strengthening the regional management of drilling services and enhancing the work efficiency of each region.

The Board strongly believes that Hilong will continue to maintain its strong growth momentum and bring substantial returns to the shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Net cash from operating activities	**13,981**	110,824
Net cash used in investing activities	**(155,617)**	(156,812)
Net cash from/(used in) financing activities	**79,174**	(31,859)
Net decrease in cash and cash equivalents	**(62,462)**	(77,847)
Exchange (losses)/gains on cash and cash equivalents	**(3,758)**	450
Cash and cash equivalents at beginning of the period	**403,962**	325,500
Cash and cash equivalents at end of the period	**337,742**	248,103

Operating Activities

Net cash from operating activities for the Interim Period was RMB14.0 million, representing cash generated from operations of RMB107.3 million, partially offset by the interest payment of RMB29.8 million and income tax payment of RMB63.5 million.

Net cash from operating activities for the six months ended 30 June 2012 was RMB110.8 million, representing cash generated from operations of RMB162.8 million, partially offset by the interest payment of RMB20.5 million and income tax payment of RMB31.5 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB155.6 million, primarily attributable to (i) payment of RMB135.9 million for purchases of property, plant and equipment, and (ii) prepayment of RMB18.0 million for acquisition of subsidiary.

Net cash used in investing activities for the six months ended 30 June 2012 was RMB156.8 million, primarily attributable to (i) payment of RMB161.4 million for purchases of property, plant and equipment, and (ii) payment of RMB15.4 million in connection with investment in jointly controlled entities, partially offset by sale proceeds of RMB20.0 million from disposal of property, plant and equipment.

Financing Activities

Net cash generated from financing activities for the Interim Period was RMB79.2 million, primarily attributable to borrowings of RMB434.4 million, offset by (i) repayment of borrowings of RMB249.4 million, (ii) dividends payment of RMB98.6 million, and (iii) net cash out flow of RMB15.8 million arising from security deposit for bank borrowings.

Net cash used in financing activities for the six months ended 30 June 2012 was RMB31.9 million, primarily attributable to (i) repayment of borrowings of RMB168.0 million, (ii) dividends payment of RMB85.9 million, and (iii) net cash outflow of RMB22.8 million arising from security deposit for bank borrowings, partially offset by borrowings of RMB249.4 million.

CAPITAL EXPENDITURES

Capital expenditures were RMB270.9 million and RMB169.5 million for the six months ended 30 June 2012 and the Interim Period respectively. The decrease in capital expenditures for the Interim Period primarily reflected less procurement of drilling rigs and related equipments.

INDEBTEDNESS

As at 30 June 2013, the outstanding indebtedness of RMB915.7 million was mainly denominated in RMB and USD. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Non-current		
Convertible bonds	**–**	204,903
Bank borrowings – secured	**87,847**	88,068
Less: Current portion of non-current borrowings	**(21,962)**	–
	65,885	292,971
Current		
Bank borrowings – secured	**238,023**	184,290
Bank borrowings – unsecured	**589,785**	461,971
Current portion of non-current borrowing	**21,962**	–
	849,770	646,261
	915,655	939,232

The bank borrowings of RMB125.0 million were jointly secured by certain buildings and facilities of the Group, with the carrying value of RMB143.0 million as at 30 June 2013.

The bank borrowings of RMB150.9 million were secured by certain machinery and equipment with carrying value of RMB135.2 million and certain bank deposit of the Group, with carrying value of RMB41.6 million as at 30 June 2013.

The bank borrowings of RMB50.0 million were secured by certain bank deposit of the Group, with carrying value of RMB10.0 million as at 30 June 2013.

GEARING RATIO

The Group's objectives in capital management are to maintain the Group's ability to operate 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.

Consistent with peers in the industry, the Group monitors capital on the 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 consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 30 June 2013 and 31 December 2012 are as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Total borrowings	**915,655**	939,232
Less: Cash and cash equivalents	**(337,742)**	(403,962)
Net debt	**577,913**	535,270
Total equity	**2,631,558**	2,305,434
Total capital	**3,209,471**	2,840,704
Gearing ratio	**18.01%**	18.84%

The gearing ratio remained stable as at 30 June 2013 compared to that as at 31 December 2012.

FOREIGN EXCHANGE

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. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB 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 RMB against the USD from 21 July 2005 to 30 June 2013. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuating exchange rate of the RMB against USD. The Group has not hedged against any fluctuation in foreign currency. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or natural hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 31.2% and 40.7% of the total revenue of the Company for the six months ended 30 June 2012 and the Interim Period, respectively.

MATERIAL ACQUISITIONS

On 22 March 2013, pursuant to the Share Transfer Agreement between Hilong Group of Companies Ltd. and Zhongxing Energy Equipment Co., Ltd., Hilong Group of Companies Ltd. purchased 44% equity interest in Nantong Hilong Steel Pipe Co., Ltd. ("**Nantong Hilong**") at an aggregate consideration of RMB35.2 million. After the acquisition, the Group's effective equity interest in Nantong Hilong will increase from 41% to 85%, resulting in Nantong Hilong to become a subsidiary of the Group.

The Group prepaid RMB18.0 million for the acquisition in the Interim Period. The acquisition was completed on 17 July 2013.

STAFF AND REMUNERATION POLICY

As at 30 June 2013, the total number of full-time employees employed by the Group was 2,156 (31 December 2012: 2,088). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2013:

On-site workers	1,406
Administrative	346
Research and development	124
Technical support	177
Company management	34
Sales, marketing and after-sales services	69
	2,156

The Group offers employees remuneration packages mainly on the basis of individual performance and experience and with regard to industrial practice. Employees remuneration packages include basic wages, performance related bonuses and the social security and benefits. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on the relevant statutory percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labour and social welfare authorities.

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

The Company adopted another share option scheme on 10 May 2013. The Company has not granted any options under this scheme as of the date of this report.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2013

	Note	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**1,330,745**	1,253,744
Lease prepayments	*7*	**90,034**	85,566
Intangible assets	*7*	**70,820**	71,094
Investments in associates		**51,839**	53,683
Investments in jointly controlled entities		**16,807**	21,828
Deferred income tax assets		**99,277**	93,504
Other long-term assets	*8*	**19,054**	2,216
		1,678,576	1,581,635
Current assets			
Inventories		**637,046**	586,344
Trade and other receivables	*9*	**1,501,993**	1,385,225
Restricted cash		**98,466**	82,965
Cash and cash equivalents		**337,742**	403,962
		2,575,247	2,458,496
Total assets		**4,253,823**	4,040,131
EQUITY			
Capital and reserves attributable to equity owners of the Company			
Share capital	*10*	**141,674**	133,613
Other reserves	*11*	**1,091,755**	774,039
Retained earnings			
– Proposed final dividend		**–**	100,462
– Others		**1,251,325**	1,146,171
Currency translation differences		**(55,785)**	(36,709)
		2,428,969	2,117,576
Non-controlling interests		**202,589**	187,858
Total equity		**2,631,558**	2,305,434

The notes on page 25 to 48 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (continued)

AS AT 30 JUNE 2013

	Note	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*12*	**65,885**	292,971
Deferred income tax liabilities		**100,262**	95,872
Derivative financial instruments	*12(a)*	**–**	33,526
Deferred revenue		**21,058**	20,989
		187,205	443,358
Current liabilities			
Borrowings	*12*	**849,770**	646,261
Trade and other payables	*13*	**542,071**	582,775
Current income tax liabilities		**42,888**	61,903
Deferred revenue		**331**	400
		1,435,060	1,291,339
Total liabilities		**1,622,265**	1,734,697
Total equity and liabilities		**4,253,823**	4,040,131
Net current assets		**1,140,187**	1,167,157
Total assets less current liabilities		**2,818,763**	2,748,792

The notes on page 25 to 48 are an integral part of this condensed consolidated interim financial information.

Approved by the Board of Directors on 23 August 2013.

Zhang Jun
Director

Ji Min
Director

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	(Unaudited) Six months ended 30 June 2013 RMB'000	2012 RMB'000
Revenue	*6(a)*	**1,165,168**	929,685
Cost of sales		**(684,139)**	(558,143)
Gross profit		**481,029**	371,542
Selling and marketing expenses		**(56,997)**	(44,560)
Administrative expenses		**(135,902)**	(125,051)
Other losses – net	*14*	**(92,463)**	(6,028)
Operating profit		**195,667**	195,903
Finance income	*15*	**4,743**	642
Finance costs	*15*	**(34,140)**	(35,460)
Finance costs – net		**(29,397)**	(34,818)
Share of results of:			
– Associates		**99**	845
– Jointly controlled entities		**(5,080)**	(2,572)
Profit before income tax		**161,289**	159,358
Income tax expense	*16*	**(43,159)**	(17,290)
Profit for the period		**118,130**	142,068
Profit attributable to:			
Equity owners of the Company		**103,399**	130,193
Non-controlling interests		**14,731**	11,875
		118,130	142,068
Earnings per share from operations attributable to equity owners of the Company (expressed in RMB per share)			
– Basic	*17*	**0.0634**	0.0818
– Diluted	*17*	**0.0631**	0.0818
Dividends	*18*	**–**	–

The notes on page 25 to 48 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Profit for the period	**118,130**	142,068
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(19,076)**	1,508
Total comprehensive income for the period	**99,054**	143,576
Attributable to:		
Equity owners of the Company	**84,323**	131,701
Non-controlling interests	**14,731**	11,875
	99,054	143,576

The notes on page 25 to 48 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2013

		(Unaudited)						
		Capital and reserves attributable to equity owners						
	Note	Share capital RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2012		133,927	764,232	995,640	(33,650)	1,860,149	178,473	2,038,622
Comprehensive income								
Profit for the period		–	–	130,193	–	130,193	11,875	142,068
Other comprehensive income								
Currency translation differences		–	–	–	1,508	1,508	–	1,508
Total comprehensive income for the period		–	–	130,193	1,508	131,701	11,875	143,576
Transactions with owners								
Share repurchase	*10(a)*							
– repurchases of shares		(314)	–	–	–	(314)	–	(314)
– premium on repurchase of shares		–	(3,915)	–	–	(3,915)	–	(3,915)
– transfer		–	314	(314)	–	–	–	–
Consideration paid to the then equity owner for acquisition of a subsidiary under common control	*11(1)*	–	(380)	–	–	(380)	–	(380)
Pre-IPO share option plan	*11(2)*	–	5,446	–	–	5,446	–	5,446
Dividends in respect of 2011	*18*	–	–	(89,017)	–	(89,017)	–	(89,017)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(1,709)	(1,709)
Total transaction with owners		(314)	1,465	(89,331)	–	(88,180)	(1,709)	(89,889)
As at 30 June 2012		133,613	765,697	1,036,502	(32,142)	1,903,670	188,639	2,092,309
As at 1 January 2013		**133,613**	**774,039**	**1,246,633**	**(36,709)**	**2,117,576**	**187,858**	**2,305,434**
Comprehensive income								
Profit for the period		**–**	**–**	**103,399**	**–**	**103,399**	**14,731**	**118,130**
Other comprehensive income								
Currency translation differences		**–**	**–**	**–**	**(19,076)**	**(19,076)**	**–**	**(19,076)**
Total comprehensive income for the period		**–**	**–**	**103,399**	**(19,076)**	**84,323**	**14,731**	**99,054**
Transactions with owners								
Issue of ordinary shares in connection with conversion of convertible bonds	*10(c)*	**7,732**	**305,954**	**–**	**–**	**313,686**	**–**	**313,686**
Pre-IPO share option plan	*11(2)*	**–**	**3,532**	**–**	**–**	**3,532**	**–**	**3,532**
Exercise of share options	*10(b)*	**329**	**8,230**	**–**	**–**	**8,559**	**–**	**8,559**
Dividends in respect of 2012	*18*	**–**	**–**	**(98,707)**	**–**	**(98,707)**	**–**	**(98,707)**
Total transaction with owners		**8,061**	**317,716**	**(98,707)**	**–**	**227,070**	**–**	**227,070**
As at 30 June 2013		**141,674**	**1,091,755**	**1,251,325**	**(55,785)**	**2,428,969**	**202,589**	**2,631,558**

The notes on page 25 to 48 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Cash flow from operating activities		
Cash generated from operations	**107,332**	162,771
Interest paid	**(29,794)**	(20,507)
Income tax paid	**(63,557)**	(31,440)
Net cash generated from operating activities	**13,981**	110,824
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	**3,273**	20,003
Purchases of property, plant and equipment	**(135,938)**	(161,382)
Purchases of lease prepayments	**(5,000)**	–
Purchases of intangible assets	**–**	(27)
Investment in jointly controlled entities	**–**	(15,406)
Prepayment for acquisition of subsidiary	**(17,952)**	–
Net cash used in investing activities	**(155,617)**	(156,812)
Cash flow from financing activities		
Net cash outflow arising from consideration paid to the then equity owner for acquisition of subsidiaries under common control	**–**	(380)
Proceeds from borrowings	**434,366**	249,365
Repayments of borrowings	**(249,409)**	(167,986)
Dividends paid to the non-controlling interests of the subsidiaries	**–**	(1,798)
Proceeds from share options exercised	**8,559**	–
Dividends	**(98,553)**	(85,863)
Repurchase of shares	**–**	(2,385)
Net cash used in security deposit for bank borrowings	**(15,789)**	(22,812)
Net cash generated from/(used in) financing activities	**79,174**	(31,859)
Net decrease in cash and cash equivalents	**(62,462)**	(77,847)
Exchange (losses)/gain on cash and cash equivalents	**(3,758)**	450
Cash and cash equivalents at beginning of the period	**403,962**	325,500
Cash and cash equivalents at end of the period	**337,742**	248,103

The notes on page 25 to 48 are an integral part of this condensed consolidated interim financial information.

1 GENERAL INFORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands on 15 October 2008 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands in preparation for listing the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. 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.

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 on 21 April 2011.

The condensed consolidated interim financial information was presented in Renminbi thousand (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 23 August 2013.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

New standards and amendments to standards effective for accounting period beginning on or after 1 January 2013 have been adopted by the Group in 2013:

- HKAS 1 (Amendment) "Presentation of financial statements" requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The Group adopts this amendment from 1 January 2013 and implements the revised presentation of other comprehensive income items.

- HKAS 19 (Amendment) "Employee benefits" makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The group doesn't hold any defined benefit plans or early-termination plans so that the adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

- HKFRS 7 (Amendment) "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities" requires entities to disclose information about recognized financial instruments that are offset in the statement of financial position. In addition, disclosures are required for those recognized financial instruments that are subject to master netting or similar arrangements. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

3 ACCOUNTING POLICIES (continued)

New standards and amendments to standards effective for accounting period beginning on or after 1 January 2013 have been adopted by the Group in 2013 (continued):

- HKFRS 13 "Fair value measurement" explains how to measure fair value and enhance fair value disclosures. The adoption of this new standard results in additional disclosures.

- HKFRS 10 "Consolidated financial statements" replaced all the guidance on control and consolidation in HKAS 27 "Consolidated and separate financial statements", and HK(SIC) – 12 "Consolidation – special purpose entities". The Group assessed that the adoption of HKFRS 10 didn't result in any change in the consolidation status of its subsidiaries.

- HKAS 27 (revised 2011) "Separate financial statements" contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Group adopts this new standard from 1 January 2013.

- HKFRS 11 "Joint arrangements" classifies joint arrangements as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangement and determined it to be joint venture.

- HKAS 28 (revised 2011) "Associates and joint ventures" includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. The adoption of this new standard has no material impact on the unaudited condensed consolidated interim financial information.

- HKFRS 12 "Disclosures of interests in other entities" provides disclosure requirements on interests in subsidiaries, associates, joint ventures, and unconsolidated structured entities. The adoption of this new standard has no material impact on the unaudited condensed consolidated interim financial information.

- HKFRS 10, 11 and 12 (Amendment) "Transition guidance" provides additional transition relief to HKFRS 10, 11 and 12, limiting to the requirement to provide adjusted comparative information to only the preceding comparative period. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

- The fourth 2011 annual improvements project is effective for the accounting period beginning on or after 1 January 2013. The adoption of these amendments has no material impact on the unaudited condensed consolidated interim financial information.

New amendments and interpretations to existing standards effective for the accounting period beginning on or after 1 January 2013 but not relevant to the Group:

- HKFRS 1 (Amendment) "First-time adoption" – government loans.

- HK(IFRIC) – Int 20 "Stripping costs in the production phase of a surface mine".

3 ACCOUNTING POLICIES (continued)

New standards and amendments to standards have been issued but are not effective in 2013 and have not been early adopted by the Group:

- HKAS 32 (Amendment) "Financial instruments: Presentation – Offsetting financial assets and financial liabilities", effective for the accounting period beginning on or after 1 January 2014.

- HKFRS 10, HKFRS 12 and HKAS 27 (Amendments) "Investment entities", effective for the accounting period beginning on or after 1 January 2014.

- HKAS 36 (Amendment) "Recoverable amount disclosures for non-financial assets", effective for the accounting period beginning on or after 1 January 2014.

- HKFRS 9 "Financial instruments", effective for the accounting period beginning on or after 1 January 2015.

- HKFRS 7 and HKFRS 9 (Amendments) "Mandatory effective date and transition disclosures", effective for the accounting period beginning on or after 1 January 2015.

There are no other HKFRSs or HKASs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.

4 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2012.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed interim consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

There have been no changes in the risk management department or in any risk management policies since the year end.

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 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 and issues of debt instruments or equity instruments.

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 end of the period 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 30 June 2013					
Borrowings and interest payable	**872,891**	**70,220**	**–**	**–**	**943,111**
Trade and other payables (except for advance from customers, staff salaries and welfare payables and other tax liabilities)	**458,052**	**–**	**–**	**–**	**458,052**
	1,330,943	**70,220**	**–**	**–**	**1,401,163**
As at 31 December 2012					
Borrowings and interest payable	683,621	341,643	23,759	–	1,049,023
Trade and other payables (except for advance from customers, staff salaries and welfare payables and other tax liabilities)	454,928	–	–	–	454,928
	1,138,549	341,643	23,759	–	1,503,951

5.3 Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair Value Estimation (continued)

The Group uses valuation techniques to determine the fair value of the derivative financial instrument (Note 12(a)) that is not traded in an active market. The derivative financial instrument is included in level 3.

During the six months ended 30 June 2013 there was no transfer between levels of the fair value hierarchy used in measuring the fair value of financial instruments (six months ended 30 June 2012: nil).

During the six months ended 30 June 2013 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities (six months ended 30 June 2012: nil).

5.4 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The fair value of convertible bonds is determined using the binomial model, one of the option pricing methods. The valuation involves complex and subjective judgment and the Group's best estimates of the probability of occurrence of future events, such as fundamental changes, on the valuation date. The main inputs to this model include the underlying share price, the expected share volatility, the expected dividend yield, the risk free and risk interest rate.

A summary of changes in fair value of Level 3 derivative financial instrument for the six months ended 30 June 2013 can refer to Note 12(a). There was no change in valuation techniques during the six months ended 30 June 2013.

5.5 Valuation Process of the Group

The group engages external, independent and qualified valuers to determine the fair value of the group's convertible bonds at the end of each half year. The fair values of the derivative financial instrument were determined by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

5.6 Fair Value of Financial Assets and Liabilities

The fair value of borrowings are as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Non-current	**65,885**	311,382
Current	**849,770**	646,261
	915,655	957,643

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Cash and cash equivalents
- Restricted cash
- Trade and other receivables
- Trade and other payables

During the six months ended 30 June 2013 there were no reclassifications of financial assets (six months ended 30 June 2012: nil).

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), and share of profits of associates and share of losses of jointly controlled entities, which is consistent with that in the condensed consolidated interim financial information.

The amount provided to senior executive management with respect to total assets is measured in a manner consistent with that of the condensed consolidated interim financial information. These assets are allocated based on the operations of segment. Investments in associates and investments in jointly controlled entities are not considered to be segment assets but rather are managed by the treasury function.

The amount provided to senior executive management with respect to total liabilities is measured in a manner consistent with that of the condensed consolidated interim financial information. These liabilities are allocated based on the operations of segment.

The Group's operations are mainly organized under the following business segments:

- Oil and gas equipment production, including the production of drilling pipes which are used in drilling exploration or production wells for oil and gas producers;
- Coating materials production and coating service provision, including the production of coating materials for anticorrosive and anti-friction purpose and provision of coating services; and
- Oilfield services provision, including the provision of well drilling services to oil and gas producers.

(a) Revenue

The revenue of the Group for the six months ended 30 June 2013 and 2012 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Drill pipes and related products	**450,652**	412,942
Coating materials and services	**297,440**	273,203
Oilfield services	**417,076**	243,540
	1,165,168	929,685

6 SEGMENT INFORMATION (continued)

(b) Segment Information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2013 is as follows:

Business segment	Six months ended 30 June 2013 (Unaudited) Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Revenue				
Segment revenue	507,890	347,349	417,076	1,272,315
Inter-segment revenue	(57,238)	(49,909)	–	(107,147)
Revenue from external customers	450,652	297,440	417,076	1,165,168
Results				
Segment gross profit	177,671	139,458	163,900	481,029
Segment profit *(i)*	4,152	77,695	113,820	195,667
Finance income				4,743
Finance costs				(34,140)
Share of profit of associates				99
Share of losses of jointly controlled entities				(5,080)
Profit before income tax				161,289
Other information				
Depreciation of property, plant and equipment	18,903	9,320	33,806	62,029
Amortization of lease prepayments	444	88	–	532
Amortization of intangible assets	148	125	1	274
Capital expenditure	23,648	24,971	120,903	169,522

Business segment	As at 30 June 2013 (Unaudited) Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	1,978,585	863,048	1,343,544	4,185,177
Investments in associates				51,839
Investments in jointly controlled entities				16,807
Total assets				4,253,823
Total liabilities	1,050,195	342,783	229,287	1,622,265

(i) For the six months ended 30 June 2013, the segment profit from drill pipes and related products included the losses of RMB73,959,888 (six months ended 30 June 2012: RMB3,085,262) from changes in fair value of convertible bonds – derivative financial instrument.

6 SEGMENT INFORMATION (continued)

(b) Segment Information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2012 is as follows:

	Six months ended 30 June 2012 (Unaudited)			
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	444,939	331,047	243,540	1,019,526
Inter-segment revenue	(31,997)	(57,844)	–	(89,841)
Revenue from external customers	412,942	273,203	243,540	929,685
Results				
Segment gross profit	153,993	120,446	97,103	371,542
Segment profit	70,462	75,547	49,894	195,903
Finance income				642
Finance costs				(35,460)
Share of profits of associates				845
Share of losses of jointly controlled entities				(2,572)
Profit before income tax				159,358
Other information				
Depreciation of property, plant and equipment	17,996	8,010	26,859	52,865
Amortization of lease prepayments	444	88	–	532
Amortization of intangible assets	130	34	–	164
Capital expenditure	32,390	9,069	229,429	270,888

	As at 30 June 2012 (Unaudited)			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	1,908,810	795,745	1,073,193	3,777,748
Investments in associates				52,812
Investments in jointly controlled entities				17,977
Total assets				3,848,537
Total liabilities	1,188,515	344,703	223,010	1,756,228

6 SEGMENT INFORMATION (continued)

(c) Geographical Segments

Although the Group's three segments are managed on a worldwide basis, they operate in five 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, East Europe, Middle East and North and South America, the Group sells drill pipes and related products. In Central Asia, Middle East, West Africa and South America, the Group provides drilling services and engineering services. The following table shows the Group's total consolidated revenue by geographical market, regardless of where the goods were produced:

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
The PRC	**553,207**	515,558
North and South America	**317,163**	198,505
Russia, Central Asia and East Europe	**124,155**	101,734
West Africa	**94,904**	65,026
Middle East	**75,739**	48,862
	1,165,168	929,685

The following table shows 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 area in which the assets are located:

	(Unaudited)	**(Audited)**
	Carrying amount of segment assets	
	30 June 2013	31 December 2012
	RMB'000	RMB'000
The PRC	**670,480**	684,995
North and South America	**409,898**	404,174
Russia, Central Asia and East Europe	**152,415**	46,506
Middle East	**137,725**	142,213
West Africa	**121,081**	132,516
	1,491,599	1,410,404

The following table shows 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 area in which the assets are located:

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Russia, Central Asia and East Europe	**110,306**	517
North and South America	**47,090**	147,686
The PRC	**11,561**	47,866
Middle East	**353**	1,706
West Africa	**212**	73,113
	169,522	270,888

7 PROPERTY, PLANT AND EQUIPMENT, LEASE PREPAYMENTS AND INTANGIBLE ASSETS

		(Unaudited)	
	Property, plant and equipment RMB'000	**Lease prepayments** RMB'000	**Intangible assets** RMB'000
At 1 January 2012			
Cost	1,329,763	92,939	73,640
Accumulated depreciation	(233,650)	(6,350)	(2,146)
Impairment provision	–	–	(2,097)
Net book amount	1,096,113	86,589	69,397
Six months ended 30 June 2012			
Opening net book amount	1,096,113	86,589	69,397
Additions	270,861	–	27
Disposals	(32,257)	–	–
Depreciation	(52,865)	(532)	(164)
Exchange differences	3,348	–	–
Closing net book amount	1,285,200	86,057	69,260
At 30 June 2012			
Cost	1,568,367	92,939	73,667
Accumulated depreciation	(283,167)	(6,882)	(4,407)
Impairment provision	–	–	–
Net book amount	1,285,200	86,057	69,260
At 1 January 2013			
Cost	**1,581,319**	**93,020**	**75,825**
Accumulated depreciation	**(327,575)**	**(7,454)**	**(2,634)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**1,253,744**	**85,566**	**71,094**
Six months ended 30 June 2013			
Opening net book amount	**1,253,744**	**85,566**	**71,094**
Additions	**164,522**	**5,000**	**–**
Disposals	**(999)**	**–**	**–**
Depreciation	**(62,029)**	**(532)**	**(274)**
Exchange differences	**(24,493)**	**–**	**–**
Closing net book amount	**1,330,745**	**90,034**	**70,820**
At 30 June 2013			
Cost	**1,715,189**	**98,020**	**75,825**
Accumulated depreciation	**(384,444)**	**(7,986)**	**(2,908)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**1,330,745**	**90,034**	**70,820**

7 PROPERTY, PLANT AND EQUIPMENT, LEASE PREPAYMENTS AND INTANGIBLE ASSETS (continued)

As at 30 June 2013, certain buildings and facilities with carrying amount of RMB142,963,000 (31 December 2012: RMB147,793,000) were secured for the Group's borrowing (Note 12(b)).

As at 30 June 2013, certain machinery and equipment with carrying amount of RMB135,173,000 (31 December 2012: RMB144,668,000) were secured for the Group's borrowing (Note 12(b)).

8 OTHER LONG-TERM ASSETS

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Prepayment for acquisition of subsidiary *(a)*	**17,952**	–
Others	**1,102**	2,216
	19,054	2,216

(a) In March 2013, Hilong Group of Companies Ltd., one of the subsidiaries of the Group, entered into agreement to purchase additional 44% equity interest of Nantong Hilong Steel Pipe Co., Ltd. from Zhongxing Energy Equipment Co., Ltd. at an aggregate consideration of RMB35,200,000. As of 30 June 2013, Hilong Group of Companies Ltd. made a prepayment of RMB17,952,000 to Zhongxing Energy Equipment Co., Ltd.. Such acquisition was completed in July 2013. After the acquisition, the Group's effective equity interest in Nantong Hilong Steel Pipe Co., Ltd. increased from 41% to 85%.

9 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Bills receivable	**44,538**	72,799
Trade receivables *(a)*		
– Due from third parties	**1,169,773**	1,041,354
– Due from related parties *(Note 20(c))*	**25,623**	26,282
Trade receivables – gross	**1,195,396**	1,067,636
Less: Provision for impairment of receivables	**(15,546)**	(23,383)
Trade receivables – net	**1,179,850**	1,044,253
Dividends receivable	**1,944**	–
Prepayment of taxes other than income tax	**3,833**	–
Other receivables	**130,670**	119,665
Prepayments	**141,158**	148,508
Trade and other receivables	**1,501,993**	1,385,225

9 TRADE AND OTHER RECEIVABLES (continued)

(a) 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 services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables, before provision for impairment, as at 30 June 2013 and 31 December 2012 was as follows:

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Trade receivables, gross		
– Within 90 days	**715,185**	748,401
– Over 90 days and within 180 days	**120,032**	112,495
– Over 180 days and within 360 days	**240,355**	81,418
– Over 360 days and within 720 days	**70,157**	82,096
– Over 720 days	**49,667**	43,226
	1,195,396	1,067,636

10 SHARE CAPITAL

	Note	Number of ordinary shares	(Unaudited) Nominal value of ordinary shares (In HK$)	Equivalent nominal value of ordinary shares (In RMB)
Opening balance 1 January 2012		1,595,216,000	159,521,600	133,927,000
Share repurchase	*(a)*	(3,876,000)	(387,600)	(314,000)
As at 30 June 2012		1,591,340,000	159,134,000	133,613,000
Opening balance 1 January 2013		1,591,340,000	159,134,000	133,613,000
Issue of shares upon exercise of options	*(b)*	4,114,600	411,460	329,356
Issue of shares in connection with conversion of convertible bonds	*(c)*	97,187,500	9,718,750	7,732,136
As at 30 June 2013		1,692,642,100	169,264,210	141,674,492

(a) On 9 January 2012, 3,876,000 shares with a nominal value of HK$387,600 (equivalent to RMB314,000) were repurchased at a total consideration of HK$5,217,000 (equivalent to RMB4,229,000). All the shares repurchased during this period were cancelled on delivery of share certificates and the nominal value of such cancelled shares of RMB314,000 was credited to capital redemption reserve and paid out from the Company's retained earnings, and the relevant premium of RMB3,915,000 was paid out from the Company's share premium.

(b) During the six months ended 30 June 2013, total 4,114,600 ordinary shares (Note 11(2)) at par value of HK$0.1 per share were issued for cash at the exercise price of HK$2.6 per share as a result of the exercise of share options.

(c) During the six months ended 30 June 2013, total 97,187,500 ordinary shares at par value of HK$0.1 per share were issued upon the request for conversion by the bondholders (Note 12(a)) with the conversion price of HK$2.4 per share. The ordinary shares issued have the same rights as the other shares in issue.

11 OTHER RESERVES

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Statutory reserve	**88,464**	88,464
Merger reserve *(1)*	**(141,929)**	(141,929)
Share options reserve *(2)*	**21,025**	20,325
Capital redemption reserve	**702**	702
Share premium *(Note 10(b), 12(a))*	**1,162,146**	845,130
Capital reserve	**(38,653)**	(38,653)
	1,091,755	774,039

(1) Merger Reserve

	(Unaudited) Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Beginning of the period	**(141,929)**	(141,549)
Consideration paid to the then equity owner for acquisition of a subsidiary under common control *(Note 19)*	**–**	(380)
End of the period	**(141,929)**	(141,929)

(2) Share Options Reserve

The Company established an equity-settled Pre-IPO share option plan to recognize the contributions made by the directors and the employees of the Group. The fair value of the contributions received in exchange for the grant of the options is recognized as an expense on a straight-line basis over vesting period of each tranche. These share options are measured at fair value at grant day. The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

On 28 February 2011, the Company ratified and adopted the Pre-IPO share option plan. The movements in the number of share options outstanding and their related exercise prices are as follows:

	Exercise price (per share in HK$)	Exercise price (equivalent to RMB)	Outstanding shares (unaudited) Six months ended 30 June	
			2013	2012
Beginning of the period	2.60	2.07	**45,000,000**	45,519,000
Forfeited	2.60	2.07	**(230,800)**	(519,000)
Exercised *(Note 10(b))*	2.60	2.07	**(4,114,600)**	–
End of the period	2.60	2.07	**40,654,600**	45,000,000

11 OTHER RESERVES (continued)

(2) Share Options Reserve (continued)

The share options outstanding as at 30 June 2013 have the following vesting dates and exercise prices:

	(Unaudited) 30 June 2013		
Vesting date	**Exercise price (per share in HK$)**	**Exercise price (equivalent to RMB)**	**Outstanding shares**
21 April 2012	**2.60**	**2.07**	**5,800,800**
21 April 2013	**2.60**	**2.07**	**7,994,200**
21 April 2014	**2.60**	**2.07**	**8,953,200**
21 April 2015	**2.60**	**2.07**	**8,953,200**
21 April 2016	**2.60**	**2.07**	**8,953,200**
	2.60	**2.07**	**40,654,600**

The fair value of the Pre-IPO share options at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows,

	Granting date RMB'000
Total fair value of Pre-IPO share options	32,804

The significant inputs into the model were as follows,

	Granting date	
	In HK$	**Equivalent to RMB**
Spot share price	2.60	2.11
Exercise price	2.60	2.11
Expected volatility	55.98%	55.98%
Maturity (years)	10.00	10.00
Risk-free interest rate	2.80%	2.80%
Dividend yield	2.00%	2.00%
Early Exercise Level	1.30	1.30

The total expense recognized in the income statement for the six months ended 30 June 2013 for share options amounted to RMB3,532,345 (six months ended 30 June 2012: RMB5,445,640), with a corresponding amount credited in share capital reserve.

12 BORROWINGS

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Non-current		
Convertible bonds *(a)*	–	204,903
Bank borrowings – secured *(b)*	87,847	88,068
Less: Current portion of non-current borrowings	(21,962)	–
	65,885	292,971
Current		
Bank borrowings – secured *(b)*	238,023	184,290
Bank borrowings – unsecured	589,785	461,971
Current portion of non-current borrowing	21,962	–
	849,770	646,261
	915,655	939,232

Movement in borrowings is analyzed as follows:

	(Unaudited) Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Beginning of the period	939,232	761,697
Additions of borrowings	434,366	249,365
Repayments of borrowings	(249,409)	(167,986)
Amortization of convertible bonds by using effective interest method *(a)*	10,544	14,986
Conversion of convertible bonds *(a)*	(206,200)	–
Settlement of the interest of Convertible bonds	(5,298)	–
Exchange difference	(7,580)	353
Ending of the period	915,655	858,415

(a) Convertible Bonds

The Company issued convertible bonds to CITIC Capital China Access Fund Limited ("CITIC") at total nominal value of HK$233,250,000 (equivalent to RMB189,274,000) on 9 December 2011, with an interest rate of 3.5% per annum. These convertible bonds mature in three years from the issuance date. The holder of these convertible bonds has the option to either convert them into the Company's shares at a conversion price of HK$2.4 per share at any time after three months from the issuance date and up to seven business days prior to the maturity date, or redeem them at 1.39 times of their nominal value of HK$233,250,000 upon the maturity. The value of the host liability component and embedded derivative of the conversion option were determined at issuance date.

The fair value of the conversion option was assessed using valuation techniques. The difference between the consideration received and the fair value of the conversion option represented the fair value of the liability component at initial recognition. It was included in the non-current borrowings.

12 BORROWINGS (continued)

(a) Convertible Bonds (continued)

In February 2013, forty percent of convertible bonds with principal amount of HK$93,300,000 were converted to 38,875,000 ordinary shares (Note 10(c)) at a price of HK$2.4 per share. The corresponding liability component of convertible bonds with carrying amount of HK$101,180,668 (equivalent to RMB81,382,646), together with corresponding embedded derivative with carrying amount of HK$27,325,369 (equivalent to RMB21,978,614), were transferred to share capital and share premium as consideration for the shares issued.

In June 2013, sixty percent of convertible bonds with principal amount of HK$139,950,000 were converted to 58,312,500 ordinary shares (Note 10(c)) at a price of HK$2.4 per share. The corresponding liability component of convertible bonds with carrying amount of HK$158,038,798 (equivalent to RMB124,817,462), together with corresponding embedded derivative with carrying amount of HK$108,266,029 (equivalent to RMB85,507,427), were transferred to share capital and share premium as consideration for the shares issued.

The convertible bonds recognized in the consolidated interim balance sheet is calculated as follows:

	The liability component (Borrowings) RMB'000	Derivative financial instrument RMB'000	Total RMB'000
As at 1 January 2013	204,903	33,526	238,429
Amortization using the effective interest method	10,544	–	10,544
Changes in fair value	–	75,892	75,892
Exchange difference	(3,949)	(1,932)	(5,881)
Conversion of convertible bonds	(206,200)	(107,486)	(313,686)
Interest settlement	(5,298)	–	(5,298)
As at 30 June 2013	–	–	–

(b) Secured Bank Borrowings

The bank borrowings of RMB125,000,000 (31 December 2012: RMB125,000,000) were jointly secured by certain buildings and facilities (Note 7) of the Group, with the carrying amount of RMB142,963,000 as at 30 June 2013 (31 December 2012: RMB147,793,000);

The bank borrowings of RMB150,870,000 (31 December 2012: RMB122,010,000) were secured by certain machinery and equipment with carrying amount of RMB135,173,000 (31 December 2012: RMB144,668,000) (Note 7) and certain bank deposit of the Group, with carrying amount of RMB41,573,000 as at 30 June 2013 (31 December 2012: RMB30,714,000); and

The bank borrowings of RMB50,000,000 (31 December 2012: RMB25,348,000) were secured by certain bank deposit of the Group, with carrying amount of RMB10,000,000 as at 30 June 2013 (31 December 2012: RMB5,070,000).

13 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Bills payable	**97,966**	130,176
Trade payables:		
– Due to third parties	**280,399**	266,461
– Due to related parties *(Note 20(c))*	**2,933**	–
Other payables:		
– Due to third parties	**59,823**	42,316
Staff salaries and welfare payables	**24,006**	34,097
Advance from customers	**59,457**	82,757
Interest payables	**556**	1,456
Accrued taxes other than income tax	**–**	9,537
Dividends payable	**11,087**	10,933
Other liabilities	**5,844**	5,042
	542,071	582,775

The aging analysis of the trade payables, including amounts due to related parties which were trade in nature, was as follows:

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Trade payables, gross		
– Within 90 days	**229,487**	136,215
– Over 90 days and within 180 days	**10,496**	36,435
– Over 180 days and within 360 days	**14,694**	85,149
– Over 360 days and within 720 days	**23,095**	5,361
– Over 720 days	**5,560**	3,301
	283,332	266,461

14 OTHER LOSSES – NET

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Exchange (losses)/gain – net	**(28,643)**	5,053
Government grants	**8,496**	2,128
Changes in fair value of derivative financial instrument (including exchange difference) *(Notes 12(a))*	**(73,960)**	(3,085)
Gain/(losses) on disposal of property, plant and equipment – net	**2,274**	(12,256)
Others	**(630)**	2,132
	(92,463)	(6,028)

15 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Finance income:		
– Exchange gain – net	**3,822**	–
– Interest income derived from bank deposits	**921**	642
	4,743	642
Finance cost:		
– Amortization of the liability component of Convertible bonds *(Note 12(a))*	**(10,544)**	(14,986)
– Interest expense on bank borrowings	**(23,596)**	(20,474)
	(34,140)	(35,460)
Finance costs – net	**(29,397)**	(34,818)

16 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current income tax	**44,542**	32,223
Deferred income tax	**(1,383)**	(14,933)
Income tax expense	**43,159**	17,290

16 INCOME TAX EXPENSE (continued)

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 six months ended 30 June 2013 and 2012.

Enterprises incorporated in other places are subject to income tax rates of 15% to 35% prevailing in the places in which the Group operated for the six months ended 30 June 2013 and 2012.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable corporate tax rate on the estimated assessable profits based on existing legislations, interpretations and practices. The corporate income tax rate applicable to the Group's subsidiaries located in the PRC is 25%.

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 a 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 pursuant to the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC.

Certain subsidiaries qualified for new/high-tech technology enterprises and enjoyed preferred income tax rate of 15% for three years.

Pursuant to the Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared and distributed to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. Deferred income tax liabilities of RMB6,585,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries during the six months ended 30 June 2013. Such amounts are permanently reinvested. Unremitted earnings amounted to RMB362,270,000 at 30 June 2013 (31 December 2012: RMB296,420,000).

17 EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net profit for the period attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period.

	(Unaudited) Six months ended 30 June	
	2013	2012
Profit attributable to equity owners of the Company (RMB'000)	**103,399**	130,193
Weighted average number of ordinary shares in issue (thousands of shares)	**1,630,615**	1,591,510
Basic earnings per share (RMB per share)	**0.0634**	0.0818

17 EARNINGS PER SHARE (continued)

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 has two categories of dilutive potential ordinary shares: convertible bonds and share options.

The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect and any exchange and fair value movements. For the six months ended 30 June 2013 and 2012, the impact of weighted outstanding shares from convertible bonds on earnings per share was anti-dilutive.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 30 June) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the diluted earnings per share for the six months ended 30 June 2013 was shown as:

	(Unaudited) Six months ended 30 June 2013
Earnings	
Profit attributable to equity owners of the Company (RMB'000)	103,399
Weighted average number of ordinary shares in issue (thousands of shares)	1,630,615
Adjustments for share options (thousands of shares)	7,007
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	1,637,622
Diluted earnings per share (RMB per share)	0.0631

For the six months ended 30 June 2012, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact of share options outstanding on earnings per share was anti-dilutive.

18 DIVIDENDS

The dividend in respect of 2012 of HK$0.0760 (equivalent to RMB0.0616) per share, amounting to a total dividend of HK$124,004,000 (equivalent to RMB98,707,000) was approved at the Company's annual general meeting on 10 May 2013. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2013.

The dividend in respect of 2011 of HK$0.0690 (equivalent to RMB0.0559) per share, amounting to a total dividend of HK$109,802,000 (equivalent to RMB89,017,000) was approved at the Company's annual general meeting on 11 May 2012. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2012.

The directors resolved not to declare any an interim dividend in respect of the six months ended 30 June 2013.

19 ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA LLC. from Hailong International. Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, the Controlling Shareholder and the control is not transitory. Accordingly, the transaction has been accounted for on the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, under which the net assets of Hilong USA LLC. were consolidated by using the existing book values and the consolidated income statements included the results of Hilong USA LLC. from the earliest date presented. The consideration of USD60,000 (equivalent to RMB380,000) transferred for the acquisition were debited to other reserve as a deemed distribution to the Controlling Shareholder.

20 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2013 and 2012, and balances arising from related party transactions as at 30 June 2013 and 31 December 2012.

(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
Huashi Hailong
Beijing Huashi Hilong Oil Investments Co., Ltd.
Jiangyan Hilong Wire Welding Co., Ltd.
Hilong Oil Pipe Co., Ltd.

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.
Nantong Hilong Steel Pipe Co., Ltd.
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

(v) Jointly controlled entities of the Group

Hilong Temerso Co., Ltd.

(vi) Controlled by key management personnel

Shanghai Xinhao Technology Development Co., Ltd.
Shanghai Yuanzhi Metallurgical Co., Ltd.

20 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the six months ended 30 June 2013 and 2012, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**37,428**	10,183
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**4,926**	2,768
Hilong Temerso Co., Ltd.	**1,758**	–
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**1,089**	11,976
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	477
	45,201	25,404
Purchase of materials:		
Nantong Hilong Steel Pipe Co., Ltd.	**61,889**	11,914
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,993**	–
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**–**	2,107
	63,882	14,021
Consulting fee:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**750**	1,200
Shanghai Xinhao Technology Development Co., Ltd.	**415**	600
	1,165	1,800
Rental expenses:		
Beijing Huashi Hilong Oil Investments Co., Ltd.	**2,564**	1,500
Hilong Oil Pipe Co., Ltd.	**1,802**	1,089
	4,366	2,589

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 terms of the underlying agreements.

20 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	19,219	19,206
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	3,370	3,433
Hilong Temerso Co., Ltd.	2,867	2,602
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	167	849
Jiangyan Hilong Wire Welding Co., Ltd.	–	192
	25,623	26,282
Dividends receivable due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	1,944	–
Other receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	21,629	20,686
Nantong Hilong Steel Pipe Co., Ltd.	20,502	20,502
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	14,498	14,503
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	7,529	5,573
Huashi Hailong	3,765	1,096
Jiangyan Hilong Wire Welding Co., Ltd.	1,194	1,853
Hilong Temerso Co., Ltd.	1,742	1,647
	70,859	65,860
Prepayments to:		
Nantong Hilong Steel Pipe Co., Ltd.	31,927	28,676
Trade payables due to:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	1,993	–
Nantong Hilong Steel Pipe Co., Ltd.	940	–
	2,933	–
Dividends payable due to:		
Hailong International	9,470	9,470

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

21 COMMITMENTS

(a) Capital commitments

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

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
Property, plant and equipment	**69,360**	87,211

(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:

	(Unaudited) 30 June 2013 RMB'000	(Audited) 31 December 2012 RMB'000
No later than 1 year	**8,913**	6,210
Later than 1 year and no later than 3 year	**7,171**	5,191
Later than 3 years	**12,676**	14,549
	28,760	25,950

OTHER INFORMATION

CHANGE IN DIRECTORS' INFORMATION

There were changes in certain information of the Directors since the date of the 2012 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), as follows:

1. Mr. Li Huaiqi, non-executive Director, ceased to act as the Vice Chairman of the Listed Companies Association of Beijing with effect from 17 July 2013.

2. Mr. Lee Siang Chin, independent non-executive Director, was appointed as director of Tune Insurance Malaysia Berhad with effect from 4 July 2013.

DISCLOSURE OF INTERESTS

1) Directors' interests and short positions in the securities of the Company and its associated corporations

As at 30 June 2013, the interests and short positions of the Directors and the chief executive 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**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	902,212,000(1)	53.30%
	Founder and beneficiary of three Mr. Zhang's family trusts/ Interest of controlled corporation	112,000,800(2)	6.62%
	Beneficial owner	760,000	0.04%
Ms. Zhang Shuman	Interest of controlled corporation	24,000,000(3)	1.42%
	Beneficial owner	492,000	0.03%
Mr. Ji Min	Beneficial owner	300,000	0.02%
Mr. Yuan Pengbin	Beneficial owner	1,161,600	0.07%
Mr. Wang Tao (汪濤)	Beneficial owner	500,000	0.03%
Mr. Lee Siang Chin	Interest of controlled corporation	800,000(4)	0.05%

Notes:

(1) These shares are held by Hilong Group Limited, the entire share capital of which is held by Global Nominees Ltd., which is then wholly-owned by Standard Chartered Trust (Cayman) Limited as trustee of Mr. Zhang's trust. As Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust as well as the sole director of Hilong Group Limited, he is deemed to be interested in these shares.

(2) 24,000,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by Global Nominees Ltd. which is then wholly-owned by Standard Chartered Trust (Cayman) Limited as trustees of three Mr. Zhang's family trusts. As Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts as well as the sole director of North Violet Investment Limited and LongZhi Investment Limited, he is deemed to be interested in these shares.

(3) These shares are held by Younger Investment Limited of which Ms. Zhang Shuman is the sole director. Ms. Zhang Shuman is therefore deemed to be interested in these shares.

(4) These shares are held by Stenying Holdings Ltd. in which Mr. Lee Siang Chin has 50% control. Mr. Lee Siang Chin is therefore deemed to be interested in these shares.

(b) Long positions in the underlying shares of the Company

Name of Director	Capacity	Number of underlying shares interested under the pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012– 31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012– 31 December 2020	0.04%
Mr. Ji Min	Beneficial owner	800,000	21 April 2012– 31 December 2020	0.05%
Mr. Yuan Pengbin	Beneficial owner	2,150,000	21 April 2012– 31 December 2020	0.13%
Mr. Wang Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012– 31 December 2020	0.13%

(c) Long positions in the shares of associated corporation of the Company

Name of Director	Capacity	Name of associated corporation	Number of shares interested	Percentage of the issued share capital of the associated corporation
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust	Hilong Group Limited	100	100%

2) Substantial shareholders' interest or short positions in the securities of the Company

As at 30 June 2013, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/ underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	902,212,000[(1)]	53.30%
Global Nominees Ltd.	Nominee	1,051,042,000[(1)(2)]	62.09%
Standard Chartered Trust (Cayman) Limited	Trustee	1,051,042,000[(1)(2)]	62.09%
Ms. Gao Xia	Interest of spouse	1,015,572,800[(3)]	60.00%

Notes:

(1) These 902,212,000 shares are held by Hilong Group Limited, the entire share capital of which is held by Global Nominees Ltd. which is then wholly-owned by Standard Chartered Trust (Cayman) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.

(2) 24,000,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by Global Nominees Ltd. which is then wholly-owned by Standard Chartered Trust (Cayman) Limited as trustees of three Mr. Zhang's family trusts. Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts.

(3) Ms. Gao Xia is the spouse of Mr. Zhang Jun and is therefore deemed to be interested in the shares and underlying shares of the Company in which Mr. Zhang Jun is interested.

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a pre-IPO share option scheme (the "**Pre-IPO Scheme**") on 28 February 2011. The Pre-IPO Scheme commenced on 1 January 2011. The grantees to whom an option has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date on which the securities of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing Date**") and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years 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. During 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO Scheme, have been granted.

The following table sets forth particulars of the options granted and outstanding under the Pre-IPO Scheme and their movements during the Interim Period:

Category/name of participants	Number of share options: Outstanding as at 1 January 2013	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2013	Exercise price HK$	Weighted average closing price immediately before exercise	Date of grant	Exercise period
Directors									
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Ji Min	800,000	–	–	–	800,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
In aggregate	6,300,000	–	–	–	6,300,000				
Other employees									
In aggregate	38,700,000	–	(4,114,600)	(230,800)	34,354,600	2.60	4.07	1 January 2011	21 April 2012– 31 December 2020
Total	45,000,000	–	(4,114,600)	(230,800)	40,654,600				

POST-IPO SHARE OPTION SCHEME

The Company adopted another share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. Please refer to the circular of the Company dated 10 April 2013 for details of the Post-IPO Scheme. The Company has not granted any options under the Post-IPO Scheme as at the date of this report.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules throughout the Interim Period, except that:

(a) in respect of code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer of the Company are not separate and both are performed by Mr. Zhang Jun. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting of the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company; and

(b) in respect of code provision A.6.7 of the Corporate Governance Code, one executive Director, two non-executive Directors and one independent non-executive Director were not able to attend the annual general meeting of the Company held on 10 May 2013 due to other commitments.

OTHER INFORMATION

Model Code for Securities Transactions by Directors

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 as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific enquiries to all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the Interim Period.

REVIEW OF INTERIM REPORT

The audit committee of the Company, consisting of Mr. Lee Siang Chin, Mr. Wang Tao (王濤) and Ms. Zhang Shuman, has reviewed the interim results and the interim report for the Interim Period before the results and the report were submitted to the Board for approval.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the Interim Period.

APPRECIATION

On behalf of the Board, I wish to express my sincere gratitude to our shareholders and business partners for their continued support, and to our employees for their dedication and hard work.

For and on behalf of the Board
Hilong Holding Limited
ZHANG Jun
Chairman

25 August 2013