



海隆控股有限公司\*

Hilong Holding Limited

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

# 2013 Interim Results Presentation

August 2013



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# Hilong: A Leading Integrated Global Oilfield Equipment and Services Provider



## Drill Pipes & Related Products

- Products: Drill pipe and drill pipe components and related products
- **#1** drill pipe supplier in China
- **#2** drill pipe supplier globally
- Core competence on high-end drill pipes and related products



## Coating Materials & Services

- **#1** OCTG coating supplier in China
- **#2** OCTG coating supplier globally
- **Largest** supplier of linepipe coating materials in China
- Strong sales & marketing network covering global markets

## Oilfield Services

- **17** sets of drilling equipment focused in 3 overseas regional markets
- Strong regional player providing drilling services and other comprehensive services
- Certificated services supplier of Shell

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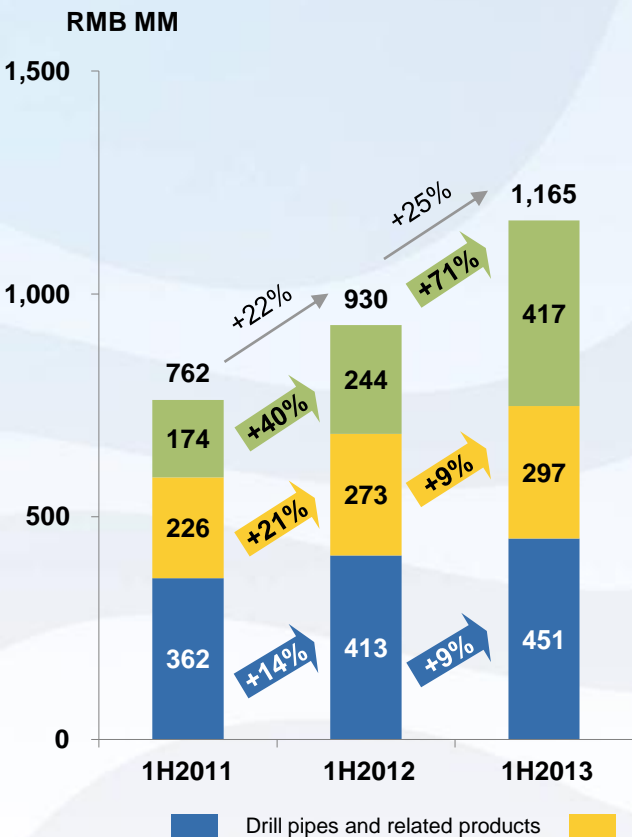


# Results Highlight

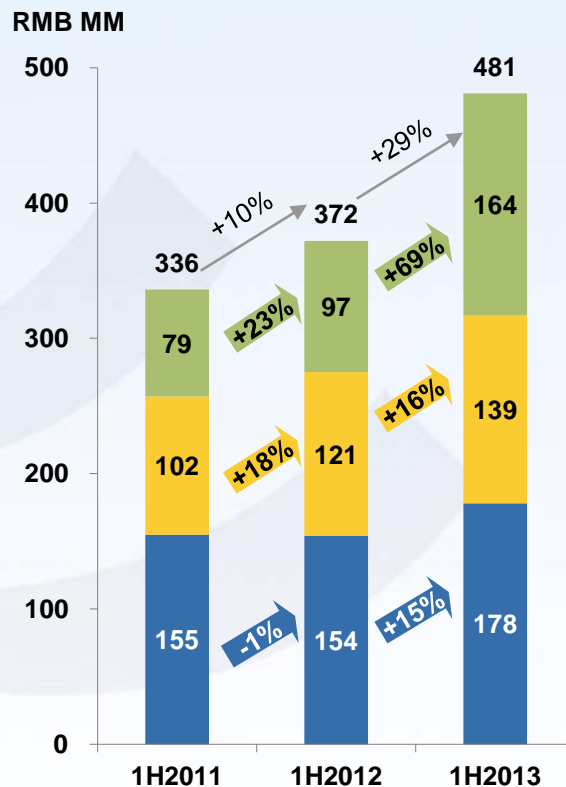
# Steady Growth of Revenue and Profit



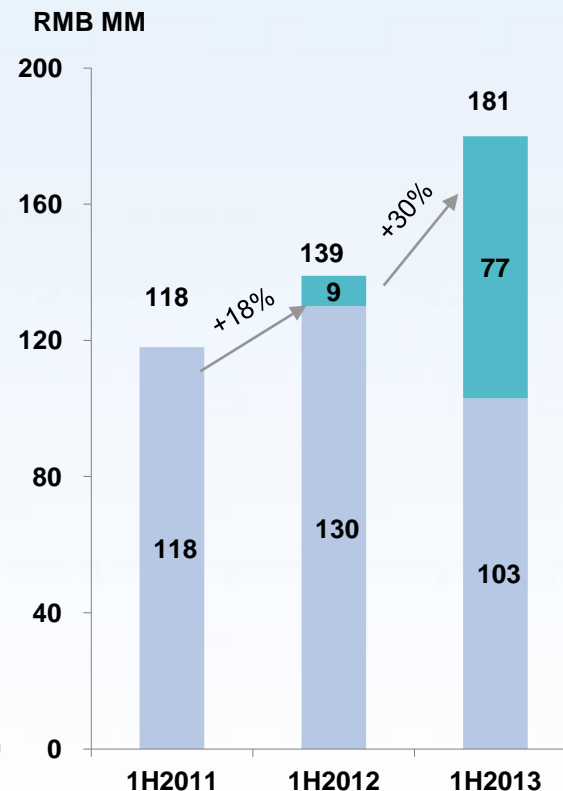
## Revenue



## Gross Profit



## Profit to Equity Owners<sup>(1)</sup>



Note 1 : The Non-GAAP profit to equity owners of the Company does not include share-based compensation expenses and loss from changes in fair value of the embedded derivative of the convertible bonds

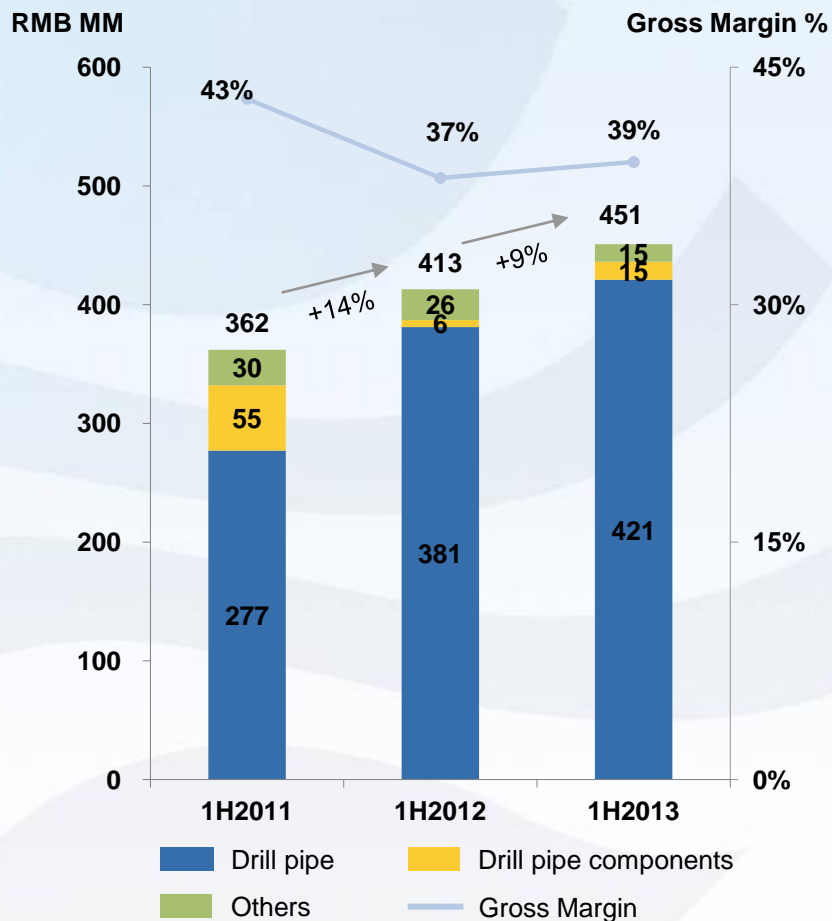


# Business Review

# Drill Pipe and Related Products



## Segment Revenue: +9% YoY



## Segment Analysis

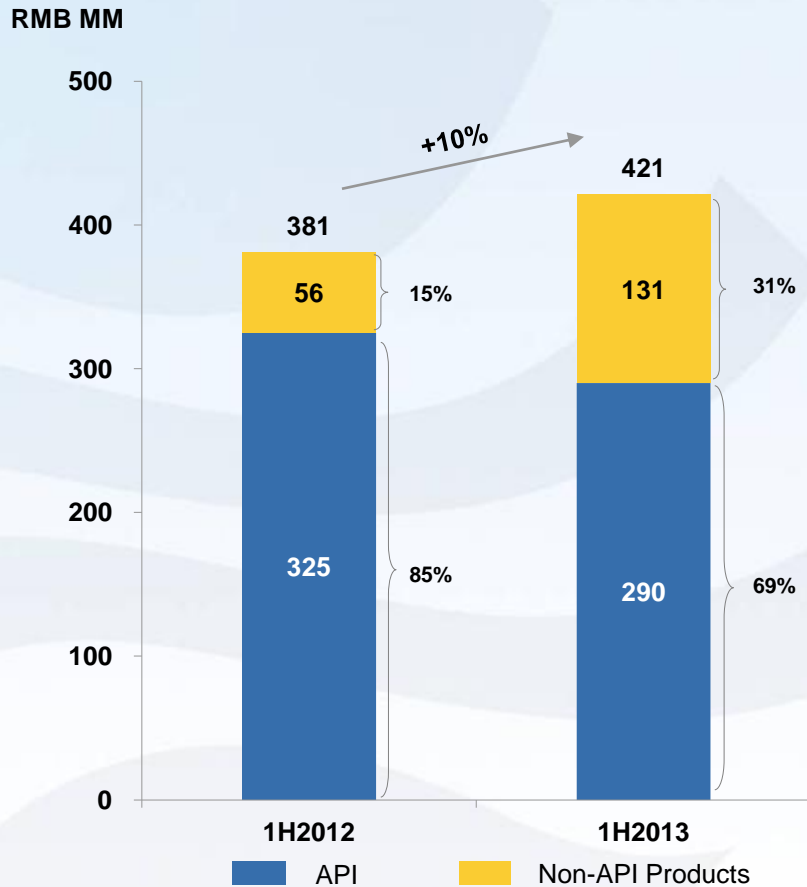
	1H 2012	1H 2013	Change
Annual capacity (Ton)	50,600	50,600	-
Utilization rate	66.2%	70.9%	+7%
Sales volume (Ton)	16,745	17,930	+7%
Domestic	9,330	10,008	+7%
International	7,415	7,922	+7%
ASP (RMB/Ton)	22,773	23,468	+3%
Domestic	23,326	22,929	-2%
International	22,076	24,151	+9%
Revenue (RMB MM)	381	421	+10%
Domestic	217	230	+5%
International	164	191	+17%



# Drill Pipe Sales Breakdown



## Improved Product Mix (1)



Note 1: API drill pipes are referred to standard drill pipes according to American Petroleum Institute specifications. Non-API drill pipes are customized products

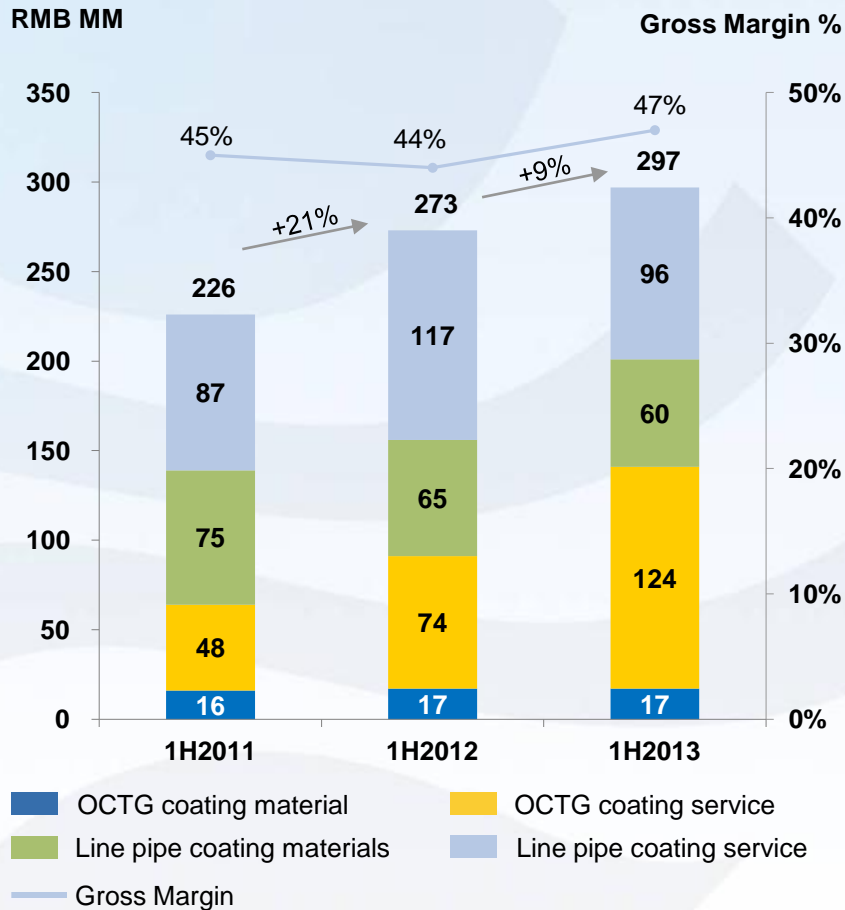
## Main High-end Non-API Products

	Product	Application	Features
Mature high-end Non-API products	Sour service drill pipe	<ul style="list-style-type: none"> <li>Gas well</li> <li>Oil and gas well with sour</li> </ul>	<ul style="list-style-type: none"> <li>Anti-corrosion and anti-SSC</li> </ul>
	Efficient cuttings bed clean Drill pipe	<ul style="list-style-type: none"> <li>Horizontal well</li> <li>High Angle Well</li> <li>Extended Reach Drilling(ERD)</li> </ul>	<ul style="list-style-type: none"> <li>Specially designed grooves on the tube bodies</li> <li>Significantly improve hole-cleaning performance</li> <li>Greatly reduce the amount of non-productive time associated with the build-up of cuttings</li> </ul>
	HLST drill pipe	<ul style="list-style-type: none"> <li>Horizontal well</li> <li>Deep well</li> </ul>	<ul style="list-style-type: none"> <li>Special anti-torque design to improve torque resistance</li> <li>Extra 65% of torque capacity than API drill pips, thus more suitable for deep and Ultra deep well and ERD</li> <li>Larger Inside diameter than API drill pipe to improve hydro-efficiency and drilling efficiency</li> </ul>
	HLV150/165Ext ra high grade drill pipe	<ul style="list-style-type: none"> <li>Ultra deep well</li> <li>Widely used in Talimu oilfield on ultra deep well</li> </ul>	<ul style="list-style-type: none"> <li>Extra high steel grade, high toughness and high torsional yield strength</li> <li>High intensity, tenacity and torque to improve drilling efficiency and depth, with better anti-fatigue performance</li> </ul>
New Products	Radio frequency identifying(RFID) drill pipe and management system	<ul style="list-style-type: none"> <li>Suitable for most drilling environments</li> </ul>	<ul style="list-style-type: none"> <li>Unique identifying tag implanted</li> <li>Special designed RFID reader could gain the UID number of the drill pipe automatically</li> <li>Improved efficiency on drilling tools management system</li> </ul>
	Landing string pipe	<ul style="list-style-type: none"> <li>Off shore drilling</li> <li>Could replace casing after drilling finished</li> </ul>	<ul style="list-style-type: none"> <li>High steel grade, large OD and thick walled, with slip proof design</li> <li>Large tension and hoist capacity</li> <li>Proof of slip crush</li> </ul>

# Coating Materials and Services



## Segment Revenue: +9% YoY



## Key Growth Drivers

- ❖ OCTG coating service business record remarkable growth with revenue increased by 67.5% YoY
  - ❖ Enhancing production efficiency to boost the output existing OCTG plants
  - ❖ Increase tubing and casing coating penetration
- ❖ Actively develop high-end line pipe coating businesses
  - ❖ Expand capacity of Corrosion Resistance Alloy Lined Pipe (CRA) to meet market demand
  - ❖ Concrete Weighted Coating (CWC) project successfully started operation in 1H2013
  - ❖ Become one of the first batch of companies awarded A-Grade supplier for line pipe coating material by PetroChina; the only company awarded in all 4 types of coating materials

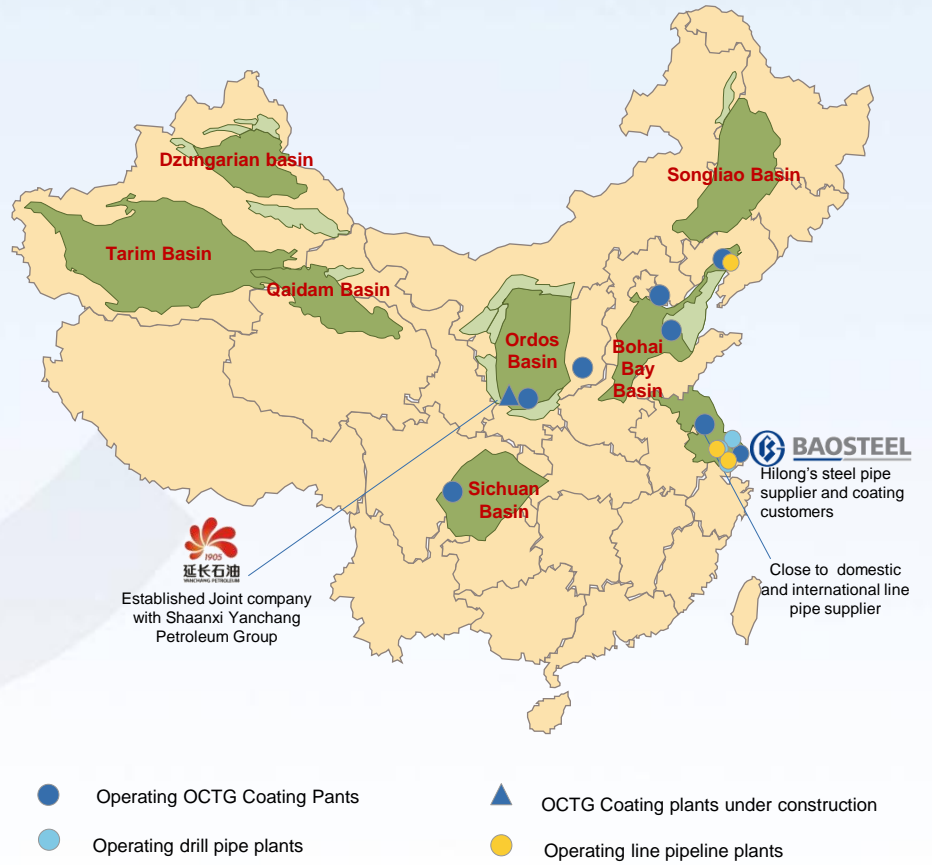
# OCTG Coating



## Effectively enhance domestic OCTG Plants Productivity

Factories	Location	Annual Capacity ('000meters)	Completion Status
Shanghai tube-Cote Petroleum Pipe Coating Co., LTD	Shanghai	1,200	> 100%
Jiangsu Tube-cote Shuguang Coating Co., Ltd	Jiangsu	800	> 100%
Tangrong Tube-cote (Shanxi) Petroleum Pipe Coating Co., Ltd	Shanxi	600	> 100%
Panjin Liaohe Oil Field Pipe Tube-Cote Coating Co., Ltd	Liaoning	600	≈ 100%
Tianjin Tube-cote Petroleum Pipe Coating Co., Ltd	Tianjin	800	≈ 100%
Sichuan Hilong Petroleum Equipment Co., Ltd	Sichuan	800 <i>Commenced operation on August 10, 2013</i>	Not yet operated in 2013 1H
Xi'an Changqing Tube-cote Petroleum Pipe Coating Co., Ltd	Shaanxi	1,000 <i>Will upgrade to 2,000 in 2014</i>	< 100%
Shandong Shengli Oilfield Wuhua Tube-Cote Petroleum Pipe Coating Co., Ltd.	Shandong	600	≈ 100%
Shaanxi Yanchang Tube-Cote Petroleum Pipe Coating Co., Ltd.	Shaanxi	1,000 <i>Will commence operation in early 2014</i>	Not yet operated in 2013 1H
Hilong Petropipe	Edmonton, Canada	600 <i>Will commence operation in second half of 2013</i>	Not yet operated in 2013 1H
Hilong Temerso	Yekaterinburg, Russia	600	≈ 100%

## Strategically Located Coating Service Facilities



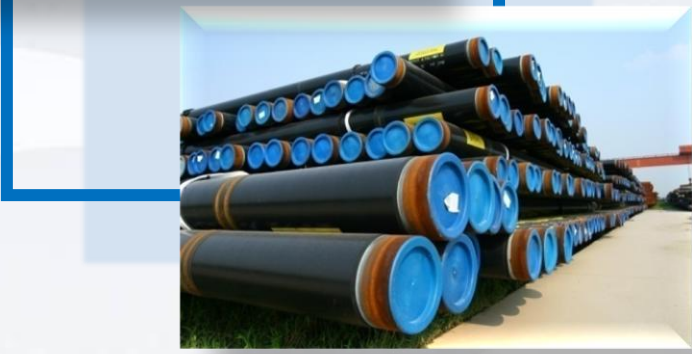
Sources: Spears & Associates, Wood Mackenzie

# Line Pipe Coating



## Winning Major Overseas Projects

- ❖ Won over 90 million RMB contract in Missan Oil Field Development Project in Iraq
- ❖ Secured GLNG upstream project order in Australia from Fluor, which is worth over 39 million RMB



## New Products & Technologies Launch

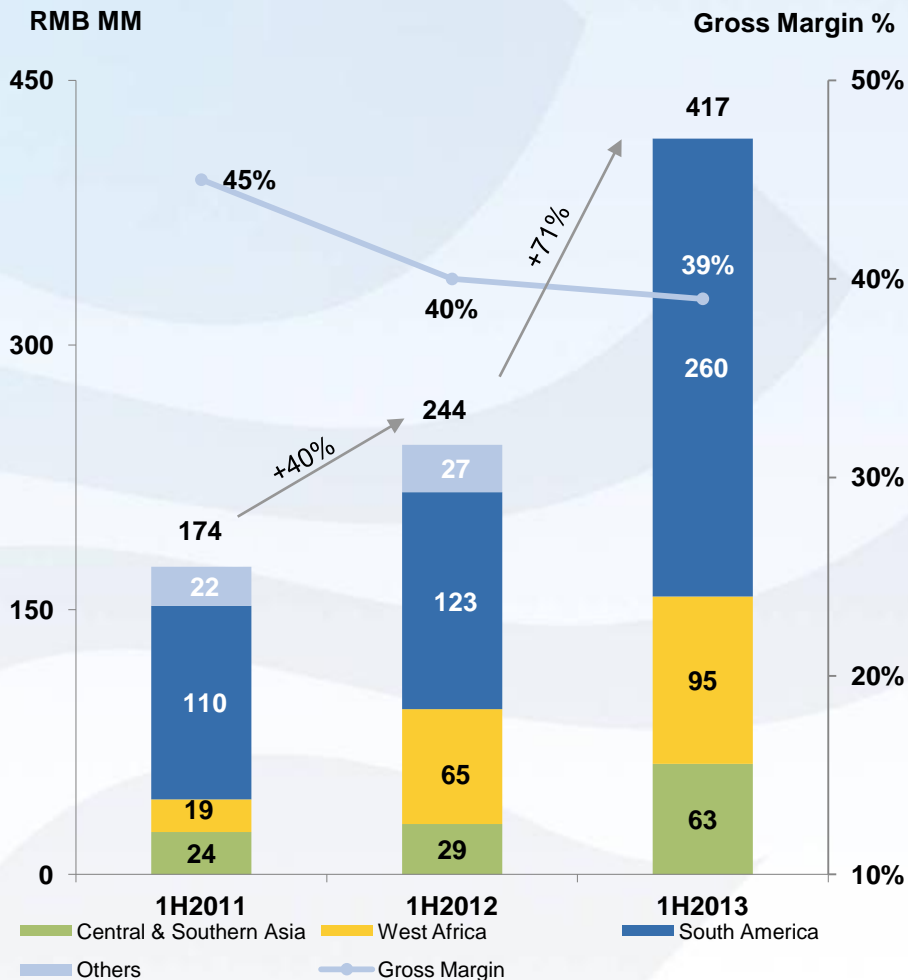
- ❖ Expand Corrosion Resistance Alloy Lined Pipe (CRA) production lines with new annual capacity of 100,000 to 150,000 tonnes. It will become one of the key drivers for the development of high-end line pipe coating business in the coming years
- ❖ Concrete Weighted Coating (CWC) production lines start operation on 24 April 2013, which become a new growth highlight for Hilong



# Oilfield Services



## Segment Revenue: +71% YoY



## Growing Market Share and Service Range

Regional Market	South America	West Africa	Central & Southern Asia
<b>Number of rigs</b>			
Workover	3		2
750HP			
1,500HP	1		1*
2,000HP	4	2	1*
3,000HP		1*	
<b>Clients</b>	Schlumberger CSSFD ANDES Petroamazonas EP	Shell (Nigeria)	KAM KOP UEG
<b>Service</b>	Drilling Service	Drilling Service	Drilling Service
	Horizontal Drilling	Horizontal Drilling	Horizontal Drilling
	OCTG Supply	OCTG Supply	OCTG Supply
	Well Workover		Cementing
			Drilling Fluids
			Turnkey Service

Note \*: Not in service as at June 2013

# Oilfield Services (Continued)



## Overview

- ❖ Provides comprehensive oilfield service for renowned customers in 3 overseas markets
- ❖ As at June 2013, the Group owns and has deployed 9 drilling rigs, 3 workover rigs, 1 oil pump and 1 Cementing machine
- ❖ 3 more land drilling rigs are still in construction and expected to be in operation from second half of 2013 and the beginning of 2014

## Well Recognized by International Customers

- ❖ Secure high-end drilling contract, provide future growth momentum
  - ❖ Secured contract with Shell to provide 3000HP high temperature and high pressure drilling services. This come after two consecutive new contracts from Shell in 2011 and 2012 demonstrates once again Hilong's world-class competitiveness in onshore drilling services market
- ❖ Improved ability to provide comprehensive service
  - ❖ Delivered 24 wells under the 2 Turnkey Contracts in Kazakhstan
  - ❖ Trading income from OCTG Supply services recorded significant growth during the period
  - ❖ The 3 workover rigs in Ecuador completed 17 wells and the total footage drilled is 74,997 meters
- ❖ Active market expansion, successful enter into Pakistan market
  - ❖ Signed services agreement with United Energy Group Limited at Pakistan, and further increase Hilong's influence in Central and South Asia market.



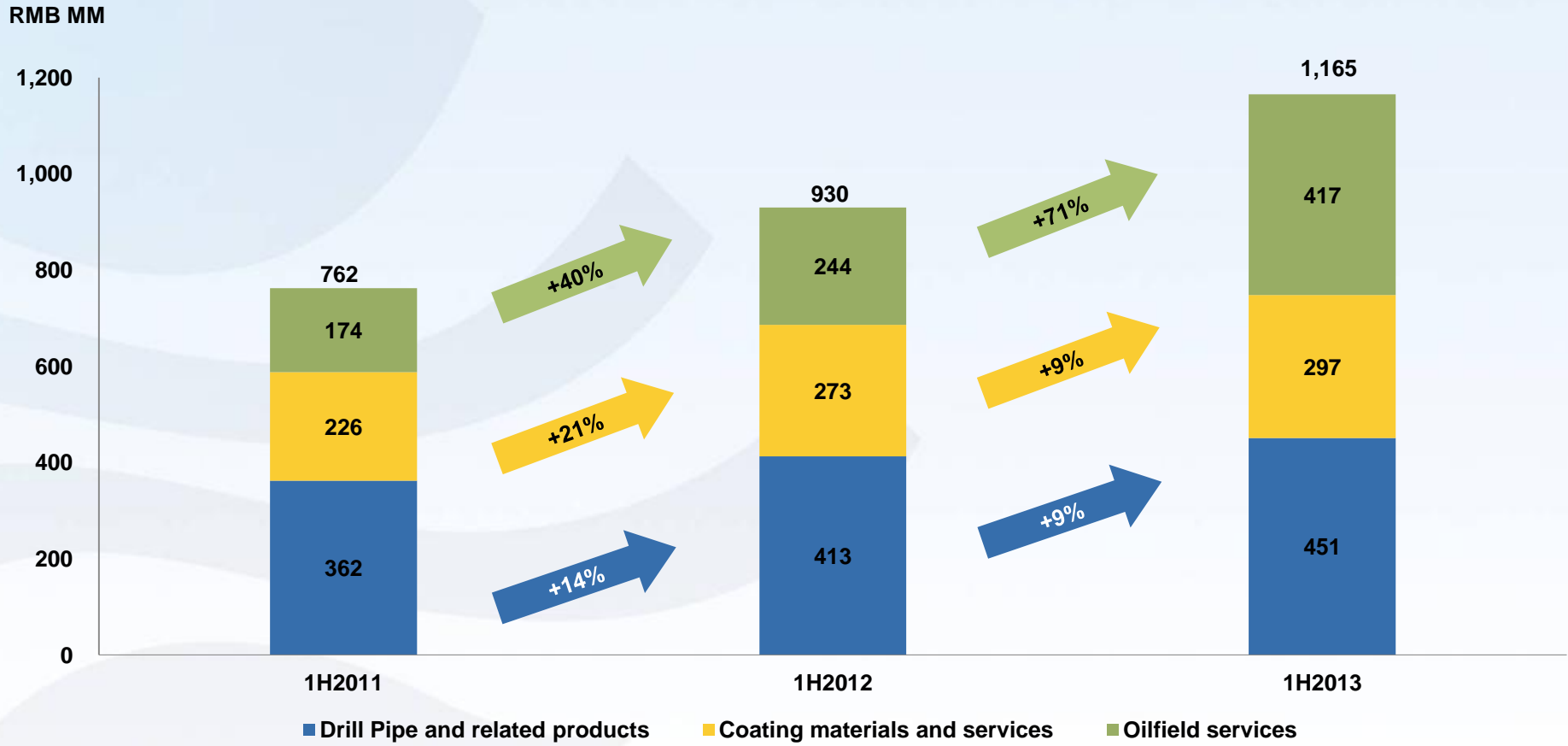


# Financial Performance

# Revenue: Strong Growth Across Segments



Revenue Increased by 25% YoY in 1H2013

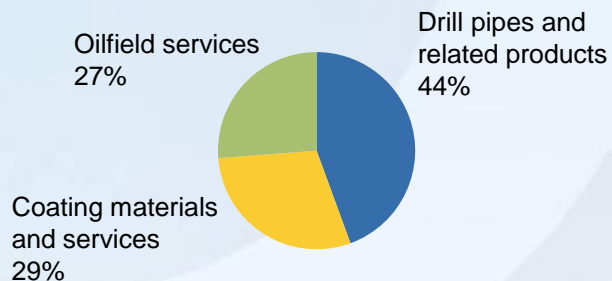




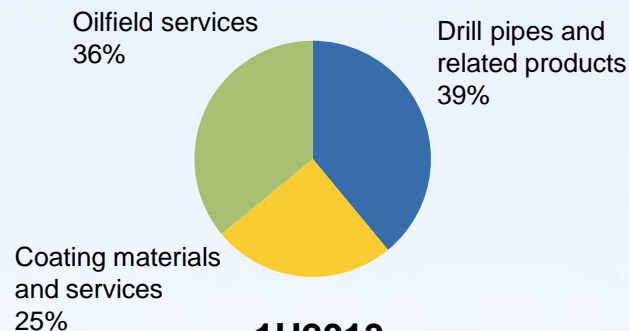
# Revenue Breakdown



## Revenue Breakdown by Products

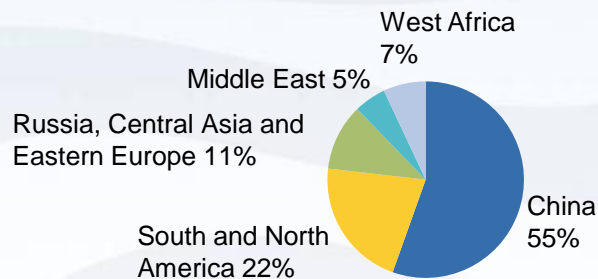


**1H2012**

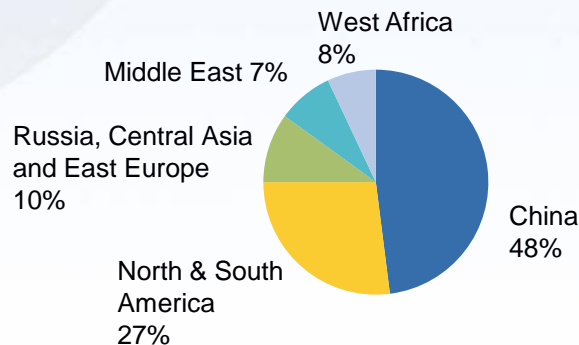


**1H2013**

## Revenue Breakdown by Geography



**1H2012**

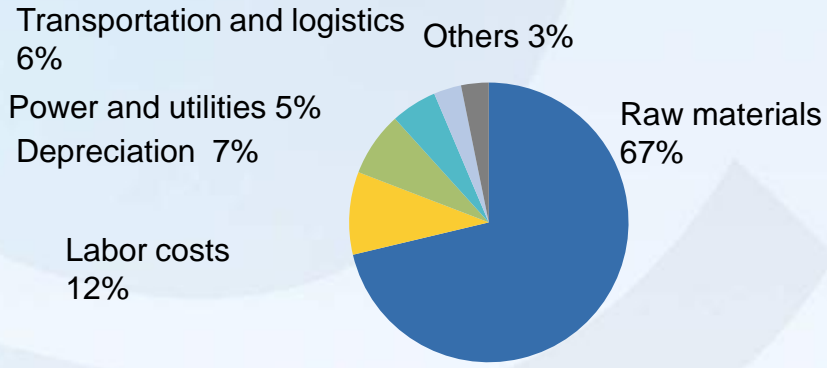


**1H2013**

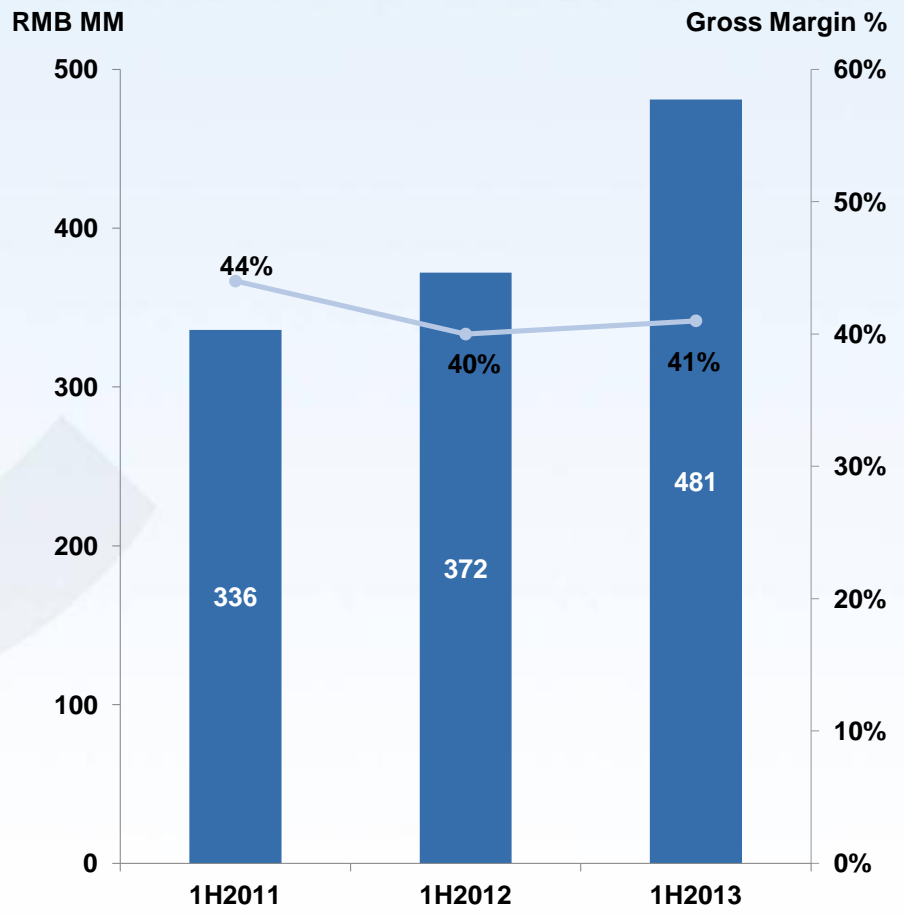
# Cost and Gross Profit Analysis



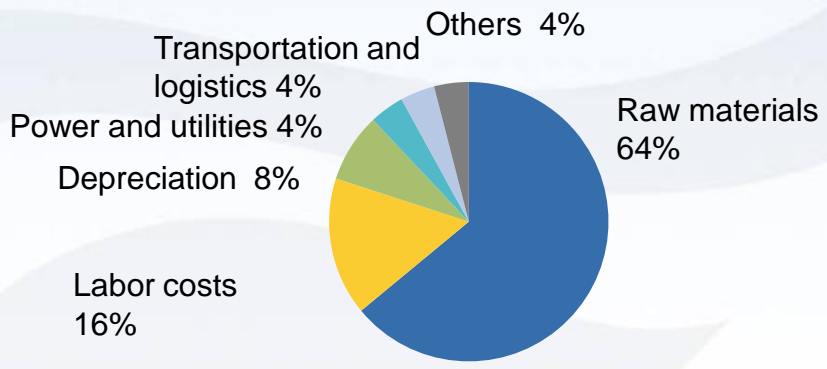
**1H 2012 Total Cost: 558MM**



**Gross Profit Increased by 29% YoY**



**1H 2013 Total Cost: 684 MM**

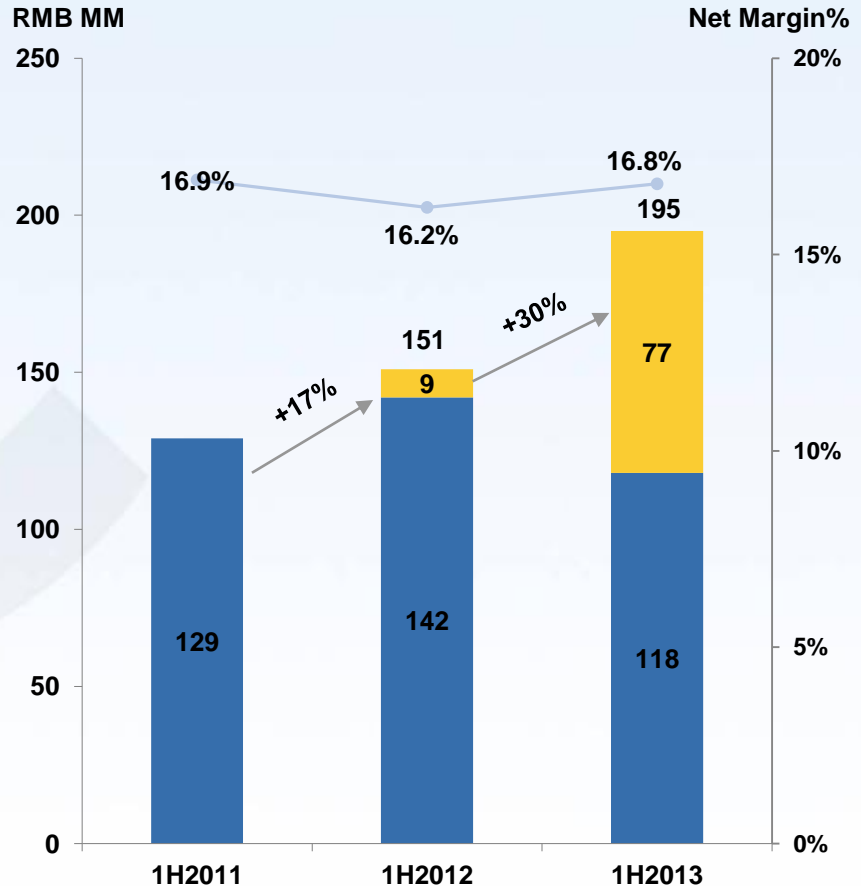
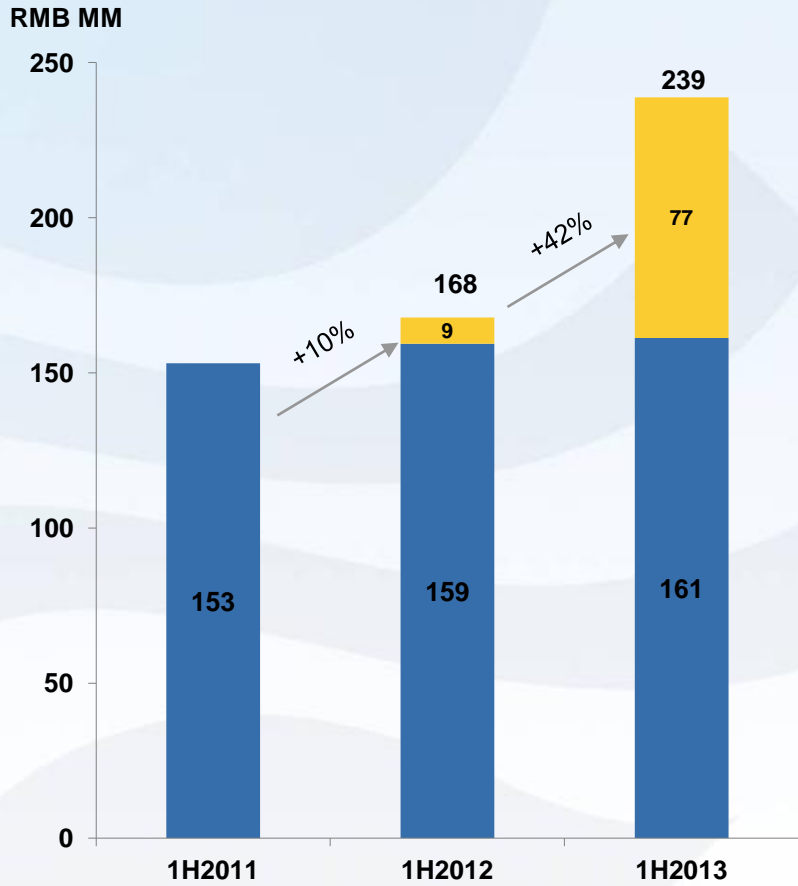


# Net Profit



**Non-GAAP Profit before Tax: +42%**

**Non-GAAP Net Profit : +30%**



Note : The Non-GAAP profit to equity owners of the Company does not include share-based compensation expenses and loss from fair value change of derivative financial instrument in association with the convertible bonds

■ GAAP    ■ Non-GAAP    ● Net Margin

# Capital Structure and Return



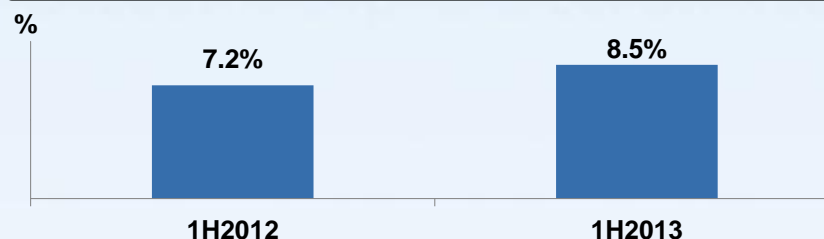
## Capital Structure

RMB MM	2012	1H2013
Cash & cash equivalent	404	338
Current assets	2,458	2,575
Total Assets	4,040	4,254
Short-term debt	646	850
Long-term debt	293	66
Total liabilities	1,735	1,622
Shareholder's equity	2,118	2,429
Minority Interests	188	203
Total Equity	2,305	2,632

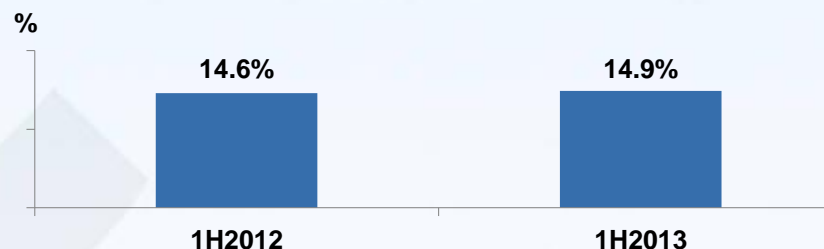
**Note:**

1. Non-GAAP Profit to Equity Owners / ending balance of total assets
2. Non-GAAP Profit to Equity Owners / ending balance of shareholders' equity
3. Net Debt = Long term debt + short term debt – cash and cash equivalent, total cap = shareholders' equity + minority interests + net debt
4. The Non-GAAP profit to equity owners of the Company does not include share-based compensation expenses and loss from changes in fair value of the embedded derivative of the convertible bonds

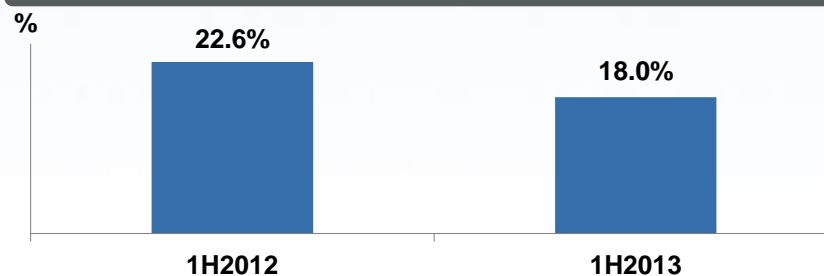
## Non-GAAP<sup>(4)</sup> Return on Assets <sup>(1)</sup>



## Non-GAAP<sup>(4)</sup> Return on Equity <sup>(2)</sup>



## Gearing Ratio: Net Debt/Total Cap <sup>(3)</sup>



# Cashflow and Capital Expenditure



## Cashflow Statement Highlight

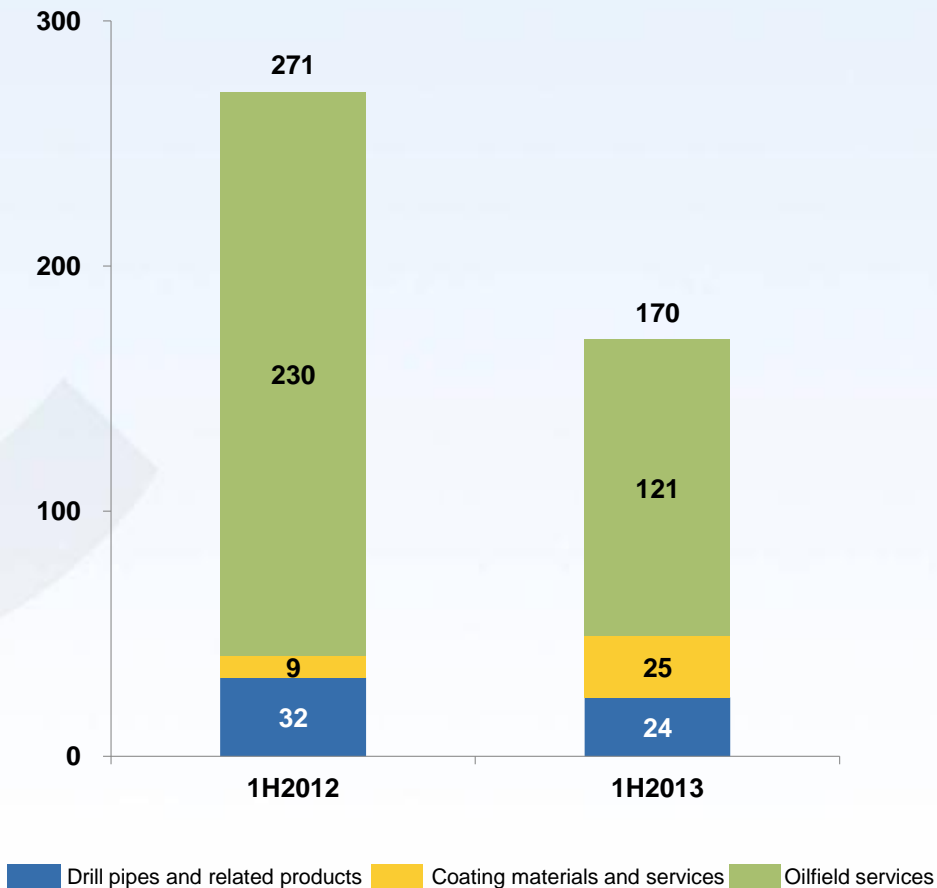
RMB MM

	1H2012	1H2013
Operating cashflow <sup>(1)</sup>	163	107
Interest Paid	-21	-30
Income Tax Paid	-31	-64
Investing cashflow	-157	-156
Financing cashflow	-32	79
Net change in cash and equivalent	-78	-62
Ending balance of cash and equivalent	248	338

Note 1 : cashflow generated from operation before interest and tax paid

## Capital Expenditure

RMB MM



# Liquidity and Turnover Days



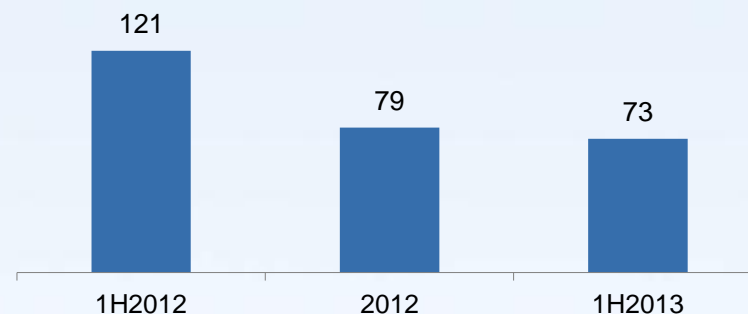
## Inventory Turnover Days <sup>(1)</sup>

Days



## Average Trade Payable Days <sup>(2)</sup>

Days



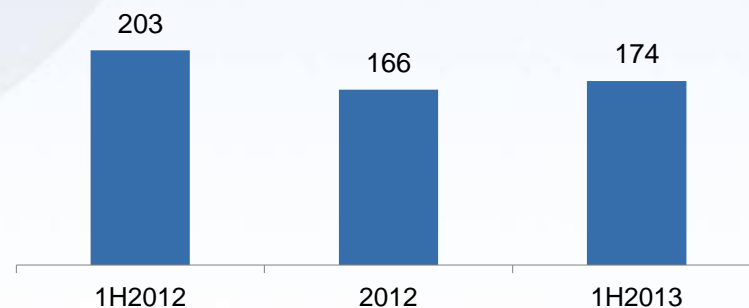
## Current Ratio

%



## Average Trade Receivable Days <sup>(3)</sup>

Days



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



## Leading Global One-stop Oilfield Equipment and Service Provider of High-end Products and Services

<ul style="list-style-type: none"> <li>❖ Focus on high-end drill pipes, coating materials and coating services</li> <li>❖ Develop application of high-end products and services, including                             <ul style="list-style-type: none"> <li>❖ Drill pipe and coating material suitable for severe and complex environment</li> <li>❖ Drill pipe for unconventional natural gas development</li> </ul> </li> </ul>	<b>High-end product R&amp;D</b>	<ul style="list-style-type: none"> <li>❖ Further upgrade and optimize drill pipe production lines for higher-end products</li> <li>❖ Continue to expand OCTG capacity</li> <li>❖ Provide more complex and high-end oil field services as well as diversified services, to increase return</li> </ul>	<b>Production / service upgrade</b>
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**Continue to enhance financial status**

<ul style="list-style-type: none"> <li>❖ Strengthen partnership with existing long-term customers</li> <li>❖ Expand customer base to secure more high-end overseas quality customers</li> </ul>	<b>Expand customer base</b>	<ul style="list-style-type: none"> <li>❖ Develop overseas markets progressively                             <ul style="list-style-type: none"> <li>❖ Expand selected production and service capacity</li> <li>❖ Expand market share through promoting high-end products</li> </ul> </li> </ul>	<b>International expansion</b>
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**We will continue to enhance our financial status to successfully execute growth strategies**