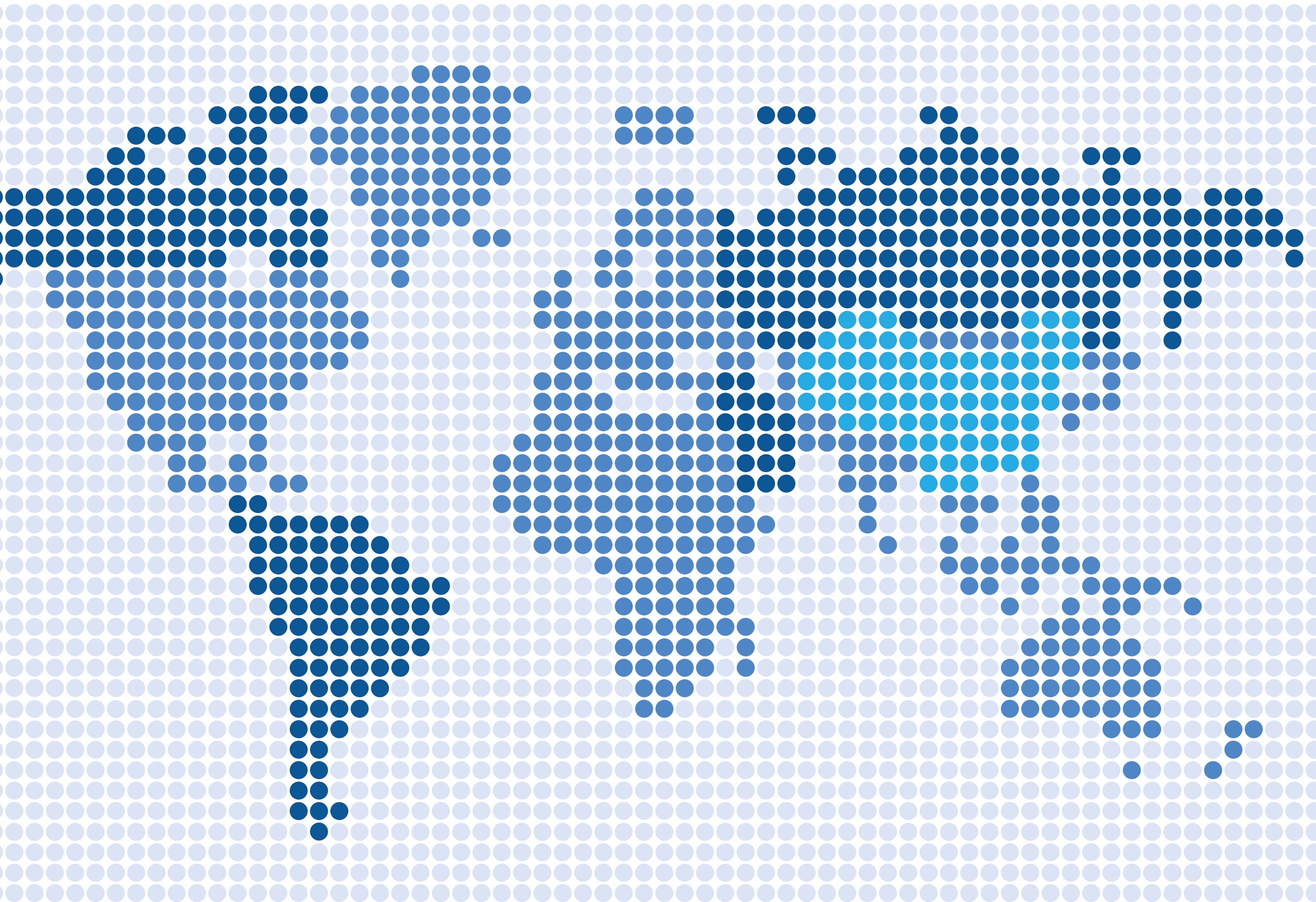
海隆控股有限公司*

Hilong Holding Limited

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

Annual Report 2012

Hilong • Drilling the Global Market



* For identification purpose only

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors of Hilong Holding Limited ("Hilong", "we" or the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012 to our shareholders.

In 2012, Hilong made significant progress both in its business development and corporate management. In relation to business development, Hilong kept working towards the goal of becoming the world leading oilfield equipment and service provider. We strengthened our leadership in the industry by continuously developing new products and services and expanding into new markets. In the corporate management front, we kept improving our management efficiency and internal control, maintaining and nurturing our talents, and enhancing our brand value.

RESULTS

In 2012, the Group realized substantial growth in its results as compared with 2011. Revenue of the Group increased to approximately RMB2,264.4 million, representing a year-on-year growth of 23.5% from 2011. The Group achieved strong growth in all three core business segments. Sales of drill pipes and related products amounted to approximately RMB1,010.9 million, representing a 11.9% year-on-year increase from 2011. The coating materials and services segment achieved a year-on-year growth of 25.8% in revenue, which amounted to approximately RMB635.9 million. The oilfield services segment grew with the fastest pace, with a year-on-year increase of 45.6% in revenue, which amounted to approximately RMB617.6 million in 2012. Profit attributable to equity owners of the Company reached approximately RMB345.0 million, representing an increase of approximately 14.2% as compared with 2011.

YEAR UNDER REVIEW

During 2012, the Group achieved rapid growth in drill pipe business. The Group continued to focus on overseas expansion, introduction of high-end products and deepening its relationship with the customers, and these efforts had paid off. During 2012 drill pipes sold to overseas markets accounted for 48% of the total drill pipe sales. Revenue contribution from tailor-made high-end products rose from 21% in 2011 to 29% in 2012. The Group successfully secured strategic cooperation agreements from Ensign, a leading Canadian drilling company, and China Petroleum & Chemical Corporation ("SINOPEC"), becoming the only strategic supplier of drill pipe products of SINOPEC. As for the coating materials and services segment, the Company actively expanded its OCTG coating service capacity, which used to be the bottleneck to this segment's growth. The OCTG coating plants in Tianjin and Russia which commenced operations in 2012 particularly contributed to the capacity growth. On the line pipe coating front, Hilong successfully introduced new anti-corrosion techniques, such as Corrosion Resistance Alloy ("CRA") lined pipe. In addition, the construction of Concrete Weighted Coating system for the offshore line pipe coating was also completed by the end of 2012. 2012 was also a fruitful year for the oilfield service segment. The Company entered into service contracts for four new drilling rigs with Shell, Schlumberger and Sinochem International in Nigeria, Ecuador and Colombia, respectively. Our oilfield service team was awarded repeatedly by our customers for our superior work quality. Meanwhile, the Company also successfully provided comprehensive services, in addition to drilling service, in Kazakhstan, including directional drilling, mud engineering, and cementing. The success in comprehensive services increased our profitability generated by each rig, and enhanced our reputation as a well known regional comprehensive services provider.

PROSPECTS

The continuous growth of the global economy drives the demand of energy. As the conventional energies are being developed, the drilling environment has become more complex, and the exploration and production of unconventional energies has become more mature. These transformations create huge opportunities for high-end oilfield equipment and service providers such as Hilong. The Group has been preparing itself for future market developments by developing forward-looking technologies. The Company has successfully introduced new drill pipes and coatings with world class technologies that are well accepted by market in recent years. Hilong will have greater competitive advantage in the industry and its market leadership will be further strengthened as the market demand for high-end products and services continues to increase. As for the oilfield service business, the Group will continue to provide high quality services, expand its fleet based on the orders received, and provide more comprehensive services.

The Company strongly believes that under the leadership of the Board, it is able to seize the opportunities and cope with new challenges through continued endeavors, and is able to maximize the value for all shareholders, customers, staff, and the society.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to our shareholders, management team and staff. Neither the past achievement nor the future development of the Group would be possible without their support and contribution.

Zhang Jun
Chairman

Hong Kong, 24 March 2013

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

COMPLIANCE ADVISER

Guotai Junan Capital Limited

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
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Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

1623

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FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2012		2011	
	RMB'000	%	RMB'000 (Restated)	%
Drill pipes and related products				
– Drill pipes	**927,163**	**40.9**	742,517	40.5
– Drill pipe components	**26,770**	**1.2**	94,080	5.1
– Hardbanding	**12,113**	**0.5**	15,602	0.9
– Equipment	**16,182**	**0.7**	10,959	0.6
– Others	**28,640**	**1.3**	40,567	2.2
Subtotal	**1,010,868**	**44.6**	903,725	49.3
Coating materials and services				
Oil Country Tubular Goods ("OCTG")				
– Coating materials	**34,796**	**1.5**	37,139	2.0
– Coating services	**201,230**	**8.9**	112,976	6.2
Oil and gas line pipe				
– Coating materials	**180,361**	**8.0**	176,057	9.6
– Coating services	**219,478**	**9.7**	179,466	9.8
Subtotal	**635,865**	**28.1**	505,638	27.6
Oilfield services	**617,640**	**27.3**	424,156	23.1
Total revenue	**2,264,373**	**100.0**	1,833,519	100.0

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

	Year ended 31 December			
	2012		2011	
	RMB'000	%	RMB'000 (Restated)	%
The People's Republic of China (the "PRC")	**1,273,120**	**56.2**	994,924	54.3
North and South America	**510,009**	**22.5**	373,397	20.4
Russia, Central Asia and East Europe	**219,822**	**9.7**	159,826	8.7
West Africa	**156,191**	**6.9**	42,638	2.3
Middle East	**92,346**	**4.1**	247,258	13.5
Others	**12,885**	**0.6**	15,476	0.8
	2,264,373	**100.0**	1,833,519	100.0

Revenue increased by RMB430.9 million, or 23.5%, from RMB1,833.5 million in 2011 to RMB2,264.4 million in 2012. 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 RMB107.2 million, or 11.9%, from RMB903.7 million in 2011 to RMB1,010.9 million in 2012. Such increase primarily reflected an increase in revenue derived from sales of drill pipes, partially offset by a decrease in revenue derived from sales of drill pipe components.

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

	Year ended 31 December	
	2012	2011 (Restated)
Sales of drill pipes		
– International market		
– volume (tons)	**15,213**	13,059
– unit price (RMB/ton)	**24,540**	25,266
Subtotal (RMB'000)	**373,337**	329,958
– Domestic market		
– volume (tons)	**22,194**	14,549
– unit price (RMB/ton)	**24,954**	28,356
Subtotal (RMB'000)	**553,826**	412,559
Total (RMB'000)	**927,163**	742,517

Revenue from sales of drill pipes in the international market increased by RMB43.3 million, or 13.1%, from RMB330.0 million in 2011 to RMB373.3 million in 2012. The increase primarily reflected a 16.5% increase in the volume of drill pipes sold from 13,059 tonnes in 2011 to 15,213 tonnes in 2012, partially offset by a 2.9% decrease in the average selling price in the international market from RMB25,266 per tonne in 2011 to RMB24,540 per tonne in 2012. The increase in the sales volume primarily reflected the Group's continuous effort on expanding international market share and an increased level of capital spending by international oil and gas companies in drilling activities. The decrease in the average selling price primarily reflected a higher portion of revenue from Russia and East Europe where drill pipes are generally sold at a lower price compared to other regions, partially offset by the revenue from sour service drill pipes successfully introduced into Canada market in 2012, which are sold at higher price.

Revenue from sales of drill pipes in the PRC market increased by RMB141.2 million, or 34.2%, from RMB412.6 million in 2011 to RMB553.8 million in 2012. The increase primarily reflected a 52.5% increase in volume of drill pipes sold in the PRC market from 14,549 tonnes in 2011 to 22,194 tonnes in 2012, partially offset by a 12.0% decrease in average selling price sold in the PRC market from RMB28,356 per tonne in 2011 to RMB24,954 per tonne in 2012. The increase in the sales volume primarily reflected (i) the Group sold around 3,500 tonnes drill pipes to certain domestic drilling rig manufacturers for their rigs sales to South America, where the Group's sales team targeted to enter into and develop the market, (ii) the Group's continuous effort to promote customized drill pipes in the PRC market, and (iii) an increased level of demand on the Group's drill pipes and capital spending by oil and gas companies in the PRC market, especially CNPC and Sinopec. The decrease in average selling price primarily reflected (i) the aforementioned around 3,500 tonnes drill pipes were sold at lower prices as the Group's strategy to build up and enhance brand recognition in South America; and (ii) the guideline price of American Petroleum Institute ("API") drill pipe products based on annual bid of both CNPC and Sinopec decreased in 2012 compared to that in 2011.

Revenue from sales of drill pipe components decreased by RMB67.3 million, from RMB94.1 million in 2011 to RMB26.8 million in 2012. Sales of drill pipe components in 2011 primarily represented steel pipes and joints sold to the Group's then jointly controlled entity in the Middle East, which was acquired by the Group as a subsidiary at the end of 2011.

Coating materials and services. Revenue from the coating materials and services segment increased by RMB130.3 million, or 25.8%, from RMB505.6 million in 2011 to RMB635.9 million in 2012. Such increase primarily reflected an increase in the revenue derived from OCTG coating services, and to a lesser extent, 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 demand for our services in 2012 compared to that in 2011.

The increase in revenue from oil and gas line pipe coating services primarily reflected (i) upgraded manufacturing capacity which enabled the Group to provide coating service for up to 18-meter-length oil and gas line pipe since the end of 2011, (ii) revenue derived from corrosion resistance alloy lined pipe services, which was newly launched in 2012, and partially offset by a decrease in revenue derived from internal coating services of oil and gas line pipe.

Oilfield services. Revenue from the oilfield services segment increased by RMB193.4 million, or 45.6%, from RMB424.2 million in 2011 to RMB617.6 million in 2012. Such increase was attributable to (i) oilfield service projects in West Africa from which the Group started to generate revenue since May 2011 and April 2012 respectively, (ii) oilfield service projects in South America from which the Group started to generate revenue during the last quarter of 2011, May 2012 and September 2012 respectively, and (iii) higher service revenue earned in Kazakhstan mainly represented higher portion of revenue from horizontal drilling services and comprehensive oil services in 2012, partially offset by (i) the decrease in trading revenue of tubing and casing products purchased from third parties to oilfield services clients, and (ii) the decrease in service revenue from Middle East as we sold the drill rig to oilfield services client in 2012.

Cost of Sales/Services

Cost of sales increased by RMB286.9 million, or 26.5%, from RMB1,082.2 million in 2011 to RMB1,369.1 million in 2012. Such increase primarily reflected an increase in cost of raw materials associated with the increase in revenue from drill pipes and related products segment and also with coating materials and services segment, coupled with an increase in depreciation of drilling equipments, staff costs and other related costs associated with the expansion of oilfield services segment in 2012 compared with that in 2011.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit increased by RMB144.0 million, or 19.2%, from RMB751.3 million in 2011 to RMB895.3 million in 2012. Gross margin decreased from 41.0% in 2011 to 39.5% in 2012. The decrease in gross margin primarily reflected the decrease in gross margin from drill pipes and related products segment.

Gross margin of drill pipes and related products segment decreased from 41.6% in 2011 to 38.4% in 2012, reflecting the decreased average selling price in both PRC and the international market, partially offset by the decreased unit cost due to the decrease of steel price and better cost control.

Selling and Marketing Expenses

The percentage of selling and marketing expenses to revenue decreased from 6.0% in 2011 to 5.2% in 2012. Such decrease primarily reflected better control on freight cost by centralized management over logistic function of the Group since 2012.

Administrative Expenses

Administrative expenses increased by RMB40.2 million, or 16.4%, from RMB245.4 million in 2011 to RMB285.6 million in 2012. Such increase primarily reflected (i) an accretion of administrative expenses of RMB26.2 million incurred in subsidiaries acquired by the Group in second half of 2011, (ii) the Group provided RMB12.4 million specific provision for impairment of certain receivables in 2012, (iii) an increase in recurring professional services fees and headquarter office expenses after the global offering (the "Global Offering") and the Listing, and (iv) an increase in office expenses, staff costs and transportation expenses incurred in connection with the expansion of oilfield services segment, partially offset by a decrease of expenses incurred in 2011 in connection with the Global Offering.

Other Losses – Net

The Group recognized net loss of RMB9.2 million in 2011 and RMB14.9 million in 2012. The net loss recognized in 2012 primarily reflected (i) a loss of RMB20.7 million in changes in fair value of the embedded derivative of the convertible bonds, and (ii) a net loss of RMB4.9 million on disposal of property, plant and equipment, partially offset by RMB13.2 million in government grants in relation to new and high-technology projects. The net loss recognized in 2011 primarily reflected RMB19.4 million in foreign exchange losses, partially offset by RMB12.8 million in government grants in relation to new and high-technology projects.

Finance Costs

Finance costs increased by RMB26.5 million, or 56.7%, from RMB46.7 million in 2011 to RMB73.2 million in 2012. Such increase primarily reflected an RMB27.6 million increase of interest in relation to the liability component of convertible bonds.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB364.9 million in 2011 to RMB406.6 million in 2012.

Income Tax Expense

The Group recognized income tax expense of RMB45.0 million in 2011 and RMB45.1 million in 2012. Effective tax rate was approximately 12.3% in 2011 and 11.1% in 2012.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company for the year increased from RMB302.0 million in 2011 to RMB345.0 million in 2012.

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 non-GAAP profit attributable to equity owners of the Company does not include all items that impact the Group's profit attributable to equity owners of the Company for the year. It excludes share-based compensation expenses and loss from fair value change of derivative financial instrument in association with the convertible bonds, which have been and might continue to be significant non-cash expenses in the Group's financial performance prepared in accordance with HKFRS. In addition, the non-GAAP profit attributable to equity owners of the Company 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 2012 and 2011 to the nearest measures prepared in accordance with HKFRS:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Profit attributable to equity owners of the Company as reported	**345,001**	302,020
Adjustments:		
– share-based compensation	**9,111**	11,214
– changes in fair value of the embedded derivative of the convertible bonds *(a)*	**20,716**	–
Non-GAAP profit attributable to equity owners of the Company	**374,828**	313,234

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.

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 of the dates indicated as well as the turnover of average inventory for the years indicated.

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Inventory	**586,344**	509,510
Turnover days of inventory (in days)[1]	**146**	149

[1] Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2011 and 2012. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The decrease in inventory turnover days from 149 days in 2011 to 146 days in 2012 primarily reflected an increase in recognized cost of sales associated with an increase in sales in 2012.

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 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Trade receivables		
– Due from third parties	**1,041,354**	968,580
– Due from related parties	**26,282**	59,350
– Less: Provision for impairment of receivables	**(23,383)**	(11,033)
Trade receivables-net	**1,044,253**	1,016,897
Other receivables		
– Due from third parties	**53,805**	44,123
– Due from related parties	**65,860**	55,740
Other receivables	**119,665**	99,863
Bills receivable	**72,799**	31,878
Prepayments	**148,508**	164,514
Total	**1,385,225**	1,313,152

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 ageing 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 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Trade receivables, gross		
– Within 90 days	**748,401**	602,677
– Over 90 days and within 180 days	**112,495**	213,645
– Over 180 days and within 360 days	**81,418**	109,046
– Over 360 days and within 720 days	**82,096**	75,107
– Over 720 days	**43,226**	27,455
	1,067,636	1,027,930
Turnover days of trade receivables, net [(1)]	**166**	176

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2011 and 2012. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

As at 31 December 2011 and 31 December 2012, trade receivables of RMB414.2 million and RMB295.9 million, representing 40.3% and 27.7% respectively, 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 subsidiaries' related party entities. As at the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

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 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Bills payable	**130,176**	103,195
Trade payables		
– Due to related parties	**–**	10,135
– Due to third parties	**266,461**	312,406
Other payables		
– Due to related parties	**–**	33,900
– Due to third parties	**42,316**	44,331
Staff salaries and welfare payables	**34,097**	32,328
Advance from customers	**82,757**	43,030
Interest payables	**1,456**	1,764
Accrued taxes other than income tax	**9,537**	28,373
Dividends payable	**10,933**	13,078
Other liabilities	**5,042**	2,320
	582,775	624,860

Trade payables represent payables due to third party suppliers and related parties. The following table sets forth an ageing 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 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Trade payables, gross		
– Within 90 days	**136,215**	220,953
– Over 90 days and within 180 days	**36,435**	20,940
– Over 180 days and within 360 days	**85,149**	19,739
– Over 360 days and within 720 days	**5,361**	13,526
– Over 720 days	**3,301**	47,383
	266,461	322,541
Turnover days of trade payables[1]	**79**	102

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2011 and 2012. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The decrease in the balance of trade payables due to third parties from 31 December 2011 to 31 December 2012 reflected the payment for procurement of the drilling rigs.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

In April 2011, the Company offered 400 million shares under the Global Offering (for details, please refer to the Company's prospectus dated 11 April 2011 (the "Prospectus")). The Company was successfully listed on the Main Board of the Stock Exchange on 21 April 2011. Net proceeds from the Global Offering were approximately HK$954 million. As at 31 December 2012, the Group had fully utilized the proceeds.

The utilization of proceeds from the Global Offering is consistent with the intended use of proceeds as disclosed in the Prospectus and the allotment results announcement dated 20 April 2011. The utilization of proceeds from the Global Offering by 31 December 2012 is summarized in the following table:

	Planned at the Global Offering HKD in million	Proceeds Utilized HKD in million	Residual balance as at 31 December 2012 HKD in million
Gross proceeds from the Global Offering	1,040		
Net proceeds after expenses	954		
Expansion of coating materials and services	229	229	–
Expansion of oilfield services	224	224	–
Repayment of outstanding balances due to controlling shareholder	189	189	–
Repayment of bank borrowings	165	165	–
Upgrading of production capacity for drill pipes	95	95	–
Working capital and general corporate purpose	52	52	–
Total	954	954	–

BUSINESS REVIEW

In 2012, the Group successfully implemented its development strategies and achieved significant progress. The Group realized substantial growth in its financial results in 2012. Revenue of the Group increased by 23.5% to RMB2,264 million and net profit attributable to shareholders increased by 14.2% to RMB345 million. Meanwhile, the Group also made significant breakthroughs in research and development ("R&D") of high-end products and services, overseas expansion and corporate governance.

Drill pipes and related products segment

The Group recorded significant increase in drill pipes and related products segment in 2012. Sales of drill pipes and related products during the year amounted to RMB1,011 million, representing a 11.9% increase from 2011. Sales of 37,407 tonnes of drill pipes generated RMB927 million in revenue, representing an increase of 24.9% from 2011. Domestically, Hilong maintained its growth momentum and further strengthened its leading position. Sales of drill pipes in China reached 22,194 tonnes, and generated RMB554 million in revenue, representing an increase of 34.2% from last year. Based on 2012 sales, Hilong's domestic market share increased from 34% to 45% in 2012(1). In overseas markets, sales of drill pipes reached 15,213 tonnes, and the revenue increased by 13.1% from 2011 to RMB373 million. Hilong's global market share increased from 13% to 16% in 2012(1). Our market shares in overseas markets rose significantly, in particular in Canada and South America.

Note 1: According to Spears & Associates Inc.

In 2012, Hilong introduced a series of new products and services into the market. Various new drill pipes were well received by our customers, such as V-150 high strength drill pipes, sour service drill pipes for shale gas exploration and specialized drill pipes for coal seam gas exploration. Meanwhile, the Company is actively developing various new technologies and products, including electronic drill pipes and V-165 ultra strength drill pipes.

In 2012, the Group made tremendous progress in enhancing the Hilong brand and strenthening the relationship with its customers. The Group continued to strengthen the cooperation with domestic and international customers. In October 2012, the Group entered into a strategic supply agreement with a term of three years with the leading Canadian drilling company Ensign Energy Services Inc.. In November 2012, the Group entered into a three-year strategic supply agreement with SINOPEC, and became SINOPEC's sole strategic supplier of drill pipes.

Coating materials and services segment

In 2012, the coating materials and services segment achieved rapid progress with a year-on-year increase in revenue of 25.8% to RMB636 million. The strong growth was driven by the expansion of OCTG coating business, as well as the introduction of new line pipe coating materials and new techniques such as the CRA lined pipe coating.

In 2012, OCTG coating business, the most profitable business within the segment, recorded a significant increase of 57.2% in revenue to RMB236 million. The global market share of OCTG coating business grew from 14% to 17%(1). Following the Company's listing in 2011, the Group rapidly increased its OCTG coating services capacity and thus broke the bottleneck of OCTG coating business. At the end of 2011, the annual capacity of OCTG coating services of the Group was appropriately 2,600,000 meters. The completion of the upgrade in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. in early 2012 contributed approximately additional 800,000 meters of annual capacity. The joint venture Hilong set up in Yekaterinburg, Russia commenced its operation in October 2012, with an annual capacity of about 600,000 meters. The construction of the OCTG coating plant in Edmonton, Canada, which is a wholly-owned subsidiary of the Company, commenced in 2012, and the plant is expected to start operation in the first half of 2013 with an annual capacity of about 600,000 meters. Our orderbook for the new plants have been quickly building up during the construction period due to strong brand recognition and our active marketing efforts.

The line pipe coating business remained steady and strong and recorded revenue of RMB400 million in 2012, representing a year-on-year increase of 12.5%. Riding on the stable growth of the existing business, the Company continued with its efforts in expanding into new areas of coating materials application and introducing new coating techniques. For instance, the new line pipe coating product CRA, which was used to protect carbon steel pipes from corrosions by alloying a layer of thin stainless steel inside, was highly recognized by our customers when it was launched in 2012. The new product significantly reduced the costs of anti-corrosion by replacing the traditional stainless steel pipes. At the end of 2012, the Group completed the construction of the production line of Concrete Weighted Coating ("CWC") that is applied to offshore line pipes to provide corrosion resistance and stability under water. The new project is expected to further drive up the coating business going forward.

Oilfield services segment

The oilfield services business achieved a substantial increase in 2012. The revenue grew by 45.6% in 2012 to RMB618 million. Hilong operates in Ecuador, Nigeria, Kazakhstan and Colombia. In addition to the 8 sets of drilling equipment at the end of 2011, 4 new sets were deployed in 2012. The Group disposed the drilling rig in Iraq in the second half of 2012, to further concentrate our drilling teams in our selected regions to increase the regional synergies. Capitalizing our track record in providing drilling services, the Group is gradually turning into an integrated service provider.

Note 1: According to Spears & Associates Inc.

The Group identifies South American market as a key region to develop the oilfield services business. As of the end of 2012, the Group had set up a regional integrated service team comprising of four 2,000HP drilling rigs, one 1500 HP drilling rig, one oil pump and one workover rig. The service team has won two-year contracts from Schlumberger, CONSORCIO SHUSHUFINDI S.A. (CSSFD), ANDES Petroleum and PETROAMAZONAS EP, the national oil company of Ecuador, to provide drilling, workover and pumping services, which laid a solid foundation for its sustainable growth in the region.

In Nigeria, the Group continued its cooperation with Shell. In 2011, the Group successfully secured one three-year drilling service contract from Shell and further secured an additional two-year drilling contract for one drilling rig in 2012. Our team in Nigeria has built up an excellent reputation and enhanced our brand recognition by achieving excellent results and breaking the drilling efficiency records repeatedly. Consequently, the team received various rewards from Shell.

Kazakhstan was the first oilfield service market the Group entered into. Over the years, the Group has established a great track record in this region, which helped the Group to promote more comprehensive services in addition to drilling, and to secure turnkey contracts that helped to increase the revenue from each rig. Our team provided services including drilling fluids, cementing services, and horizontal drilling which requires advance skills. The successful results proved that the Group is capable of being an integrated service provider. The Group will apply its successful experience in Kazakhstan to other markets, to further establish itself as a strong regional player.

PROSPECTS

In 2013, the Group will continue to focus on R&D of products and services, focus on high-end markets, further expand international markets, and enhance the brand recognition.

For drill pipes and related products, the Group will further improve its market position in overseas markets including Canada and Russia, and continue to expand in South America, United States and Middle East markets. Meanwhile, Hilong will make strong efforts in pioneering new technologies. With the increasing drilling activities in exploration and production of unconventional energies such as tight gas, coal seam gas and shale gas, and in extreme situations such as ultra-deep wells, arctic drilling and deep-water drilling, the demand of drill pipe will further shift toward higher-end products. Hilong will build up much more extensive cooperation with customers in the R&D front, which will create more value for both parties.

In relation to coating services and materials, the Group will continue to concentrate on the development of OCTG coating business. The Group will strive for business growth in OCTG coating materials and services by continuing the capacity expansion for coating services and extend the application of coating materials to tubing and casing. In addition, the Group will continue to develop new coating materials and coating techniques for line pipes and constantly introduce high-end products and services to the market.

Regarding oilfield services, Hilong will carefully consider potential new contracts and expand our drill rig fleet accordingly. In addition to drilling, Hilong plans to provide more comprehensive and challenging services, in order to enhance the profitability of each rig.

Looking ahead into 2013, we believe that, with our endeavors, Hilong will create greater values for our shareholders.

Liquidity and Capital Resources

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Net cash from operating activities	**353,180**	59,262
Net cash used in investing activities	**(295,692)**	(478,278)
Net cash from financing activities	**20,946**	495,448
Net increase in cash and cash equivalents	**78,434**	76,432
Exchange gains/(losses) on cash and cash equivalents	**28**	(7,734)
Cash and cash equivalents at beginning of the year	**325,500**	256,802
Cash and cash equivalents at end of the year	**403,962**	325,500

Operating Activities

Net cash from operating activities in 2012 was RMB353.2 million, representing an increase of RMB293.9 million compared with that in 2011, which was primarily attributable to the cash of RMB437.1 million generated from operations, partially offset by the interest payment of RMB45.4 million and income tax payment of RMB38.5 million.

Investing Activities

Net cash used in investing activities in 2012 was RMB295.7 million, primarily reflecting payment of RMB377.1 million for purchases of property, plant and equipment, partially offset by proceeds of RMB96.9 million from disposal of property, plant and equipment.

Net cash used in investing activities in 2011 was RMB478.3 million, primarily reflecting (i) payment of RMB281.1 million for purchases of property, plant and equipment, (ii) payment of RMB108.4 million in connection with changes in ownership interests in subsidiaries without change of control, and (iii) payment of RMB50.2 million in connection with acquisition of subsidiaries, net of cash acquired.

Financing Activities

Net cash generated from financing activities in 2012 was RMB20.9 million, primarily reflecting proceeds of RMB799.8 million from borrowings, offset by (i) repayment of borrowings of RMB650.5 million, (ii) dividends payment of RMB89.0 million, and (iii) net cash outflow of RMB27.8 million arising from security deposit for bank borrowings.

Net cash generated from financing activities in 2011 was RMB495.4 million, primarily reflecting (i) proceeds of RMB817.5 million from the Global Offering; (ii) proceeds of RMB189.3 million from the issuance of convertible bonds; and (iii) proceeds of RMB557.0 million from borrowings, partially offset by payment of RMB249.5 million in connection with the reorganization of the Group and repayment of borrowings of RMB764.1 million.

Capital Expenditures

Capital expenditures were RMB367.0 million and RMB359.1 million in 2012 and 2011 respectively. Capital expenditures in 2012 were primarily made in connection with purchase of drilling rigs for oilfield services segment, and construction facilities in Shanghai and Canada for coating materials and services segment. Capital expenditures in 2011 were primarily made in connection with purchase of drilling rigs for oilfield services segment, construction facilities and payment for land use rights in Shanghai.

Indebtedness

As at 31 December 2012, the outstanding indebtedness of RMB939.2 million was denominated in RMB, HKD and United States dollar ("USD"). The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Non-current		
Convertible bonds	**204,903**	178,741
Bank borrowings – unsecured	**–**	1,200
Bank borrowings – secured	**88,068**	–
Less: Current portion of non-current borrowings	**–**	(1,200)
	292,971	178,741
Current		
Bank borrowings – secured	**184,290**	267,306
Bank borrowings – unsecured	**461,971**	306,574
Related party borrowing	**–**	7,876
Current portion of non-current borrowing	**–**	1,200
	646,261	582,956
	939,232	761,697

The bank borrowings of RMB122.0 million were secured by certain machinery and equipment and bank deposit of the Group, with the carrying amount of RMB144.7 million and RMB30.7 million, respectively, as at 31 December 2012.

The bank borrowings of RMB125.0 million were secured by certain buildings and facilities, with the carrying amount of RMB147.8 million, as at 31 December 2012.

The bank borrowings of RMB25.4 million were secured by certain bank deposit of the Group, with the carrying amount of RMB5.1 million, as at 31 December 2012.

The contractual re-pricing dates or maturity dates, whichever is earlier, of the Group's bank borrowings are within 6 months as at 31 December 2011 and 2012.

The convertible bonds were issued on 9 December 2011, with an interest rate of 3.5% per annum and a maturity of three years from the issuance date.

Acquisition of a Subsidiary under Common Control

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA, LLC. from Hailong International at a purchase price of USD60,000 (equivalent to approximately RMB380,000). Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, our controlling shareholder, and the control is not transitory. Accordingly, the transaction has been accounted for on the principle 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 their existing book values and the consolidated income statements included the results of Hilong USA, LLC. from the earliest date presented. The comparative amounts in the consolidated financial statements were restated as well.

Staff and Remuneration

As at 31 December 2012, the total number of full-time employees employed by the Group was 2,088 (31 December 2011: 1,738). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2012:

On-site workers	1,420
Administrative	283
Research and development	103
Technical support	141
Company management	30
Sales, marketing and after-sales services	62
Overseas representatives	49
	2,088

The Group offers employees remuneration packages mainly on the basis of individual performance and experience and also pays regard to industrial practice, which 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 labor 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.

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 31 December 2012 and 2011 are as follows:

	As at 31 December	
	2012 RMB'000	2011 RMB'000 (Restated)
Total borrowings	**939,232**	761,697
Less: Cash and cash equivalents	**(403,962)**	(325,500)
Net debt	**535,270**	436,197
Total equity	**2,305,434**	2,038,622
Total capital	**2,840,704**	2,474,819
Gearing ratio	**18.84%**	17.63%

The slight increase in the gearing ratio as at 31 December 2012 when compared to the gearing ratio as at 31 December 2011 was resulted primarily from the increase in the balance of borrowings in 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 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 24.1% appreciation of RMB against the USD from 21 July 2005 to 31 December 2012. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in further and more significant appreciation of the RMB against USD. The Group does not hedge 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. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 31.5% and 38.7% of the total revenue of the Company in 2012 and 2011, respectively.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

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

Name	Age	Management Position
ZHANG Jun (張軍)	45	Chairman, executive Director and chief executive officer
WANG Tao (汪濤)	49	Executive Director and executive president
JI Min (紀敏)	37	Executive Director and chief financial officer
ZHANG Shuman (張姝嫚)	39	Non-executive Director and chief strategy officer
YUAN Pengbin (袁鵬斌)	54	Non-executive Director
LI Huaiqi (李懷奇)	63	Non-executive Director
WANG Tao (王濤)	66	Independent Non-executive Director
LIU Qihua (劉奇華)	47	Independent Non-executive Director
LEE Siang Chin	64	Independent Non-executive Director
LIU Haisheng (劉海勝)	66	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 45, is an Executive Director, the chairman of the Board and chief executive officer of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. As the chief executive officer, Mr. Zhang is responsible for the overall business operations and strategy formulation of the Company. Mr. Zhang has over 20 years of experience in the petroleum industry. From 2001 to 2007, he engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. In the position of vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was awarded one of the "Top 10 Influential Leaders in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009" (2009中國石油石化裝備製造業十大最具影響力領軍人物) by the National Energy Commission (國家能源委員會). Mr. Zhang is the brother of Ms. Zhang Shuman, Non-executive Director, chief strategy officer and joint company secretary of the Company and he is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

Mr. WANG Tao (汪濤), aged 49, is an Executive Director and a member of the nomination committee of the Company. Mr. Wang is responsible for daily operation of the Company. He was appointed as Non-executive Director on 2 December 2010 and was re-designated as an Executive Director on 29 March 2012. He also serves as directors of Hilong Drilling & Supply FZE and Hilong Oil Services and Engineering Nigeria Limited since 2010. Mr. Wang has over 24 years of management experience in the petroleum industry and he served as vice general manager of Hilong Group of Companies Ltd. from 2006 to February 2012 and he acts as the executive president since February 2012. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991 and was responsible for on-site operation and business administration. From 1991 to 2001, he served as assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

Mr. JI Min (紀敏), aged 37, is an Executive Director and the chief financial officer of the Company. He was appointed as Executive Director of the Company on 2 December 2010. As chief financial officer, Mr. Ji is responsible for overall financial and corporate finance management of the Company. He worked for PricewaterhouseCoopers from 1997 to 2006 and served as its senior manager. He gained extensive experiences in auditing and client management and participated in the audit work of several initial public offerings in China, including the listing of PetroChina Company Limited (中國石油天然氣股份有限公司) on the Stock Exchange (stock code: 0857). Prior to joining the Group in 2010, Mr. Ji acted as finance director of The9 Limited, an online gaming operation and development company (NASDAQ: NCTY), where he was responsible for overall financial operation from 2006 to 2007. From 2007 to 2010, he served as vice president of T2CN Information Technology (Shanghai) Co., Ltd. (天聯世紀信息技術(上海)有限公司), an internet technology and service provider and was responsible for the financial, legal, human resources and administrative management. Mr. Ji received a Bachelor's degree in Accounting from Shanghai Jiao Tong University (上海交通大學) in 1997. He is a member of the Chinese Institute of Certified Public Accountants.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 39, is a Non-executive Director, the chief strategy officer, joint company secretary and a member of the audit committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. She was re-designated as a Non-executive Director on 29 March 2012. Ms. Zhang has over 16 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003. Ms. Zhang is primarily responsible for the financing activities and strategic investment activities of the Group. Ms. Zhang has been a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. From 2003 to 2006, she acted as the joint secretary to the board of directors and coordinator of a China joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the sister of Mr. ZHANG Jun, Executive Director, chairman of the Board, chief executive officer and substantial and controlling shareholder of the Company.

Mr. YUAN Pengbin (袁鵬斌), aged 54, is a Non-executive Director and a member of the remuneration committee of the Company. He was appointed as Non-executive Director on 2 December 2010. He serves as the chairman of the Board of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) since 2005, a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特（山西）石油管道塗層有限公司) since 2008 and the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 2011. He has over 29 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd., the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所). He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011. Although Mr. Yuan will continue to hold managerial positions in our subsidiaries, his role at the Company level will be limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Center (中國石油天然氣集團公司石油管材研究所), where he was engaged in the applied research, quality control and technology supervision of petroleum tubular goods, from 1983 to 2005. He acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司). Mr. Yuan received a Bachelor's degree in Engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a Doctoral degree in Engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer (professor level) in heat treatment.

Mr. LI Huaiqi (李懷奇), aged 63, is a Non-executive Director of the Company. He was appointed as Non-executive Director on 26 August 2011. Mr. Li started to provide commercial and business consultation to the Company in 2012. He is a Senior Economist and is also the President of Chinese National Committee of World Petroleum Council and the Vice Chairman of the Listed Companies Association of Beijing. Mr. Li was the Deputy Director-General of Advisory Center and Advisor of Expert Committee in China National Petroleum Corporation ("CNPC"). Mr. Li has nearly 40 years of experience in China's oil and natural gas industry. He had worked at Daqing Oilfield, Liaohe Oilfield, Huabei Oilfield of CNPC and China National Offshore Oil Corporation ("CNOOC") Nanhai East Corporation. In 1984, Mr. Li served as Deputy Director-General of the President's Office of CNOOC Nanhai East Corporation. From 1985 to 1990, he held positions as Director of Secretariat of Ministry of Petroleum. From August 1990 to March 1992, he studied at the College of Economy of Texas A&M University in the United States. He was also the head of the First CNPC Senior Management's Training Class from August 1991 to February 1992. From June 1992, he served as Deputy Director-General and Director-General of the International Cooperation Department of CNPC. In August 2001, he was appointed as Secretary to the Board of PetroChina Co., Ltd. From June 2009, he assumed the positions of the Deputy-Director General of Advisory Center and Advisor of Expert Committee in CNPC. He assumed the current position as the President of Chinese National Committee of World Petroleum Council since July 2011. In 2008, Mr. Li was named "Top 100 Secretary to the Board" of Chinese Listed Companies by Securities Times. In 2009, he received the award of "Excellent Secretary to the Board of Golden Governance Social Responsibility Companies" by Shanghai Securities News and "Best Secretary to the Board Award" in the 9th Top 100 Chinese Listed Companies Summit hosted by Warton Economic Institute. He was also selected as "Excellent Secretary to the Board" in the annual appraisal for 2008-2009 by The Shanghai Stock Exchange.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 66, is an Independent Non-executive Director, the chairman of the remuneration committee, the chairman of the nomination committee and a member of the audit committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Wang has 38 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械廠工業部5214廠) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and general manager, chairman and senior engineer (professor level) of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院, now known as Xidian University (西安電子科技大學)) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

Mr. LIU Qihua (劉奇華), aged 47, is an Independent Non-executive Director and a member of the nomination committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. From 1987 to 1995, Mr. Liu worked as an editor of Science Press Company Limited (科學出版社有限責任公司), an associate of Chinese Academy of Science (中國科學院). From 1995 to 1999, Mr. Liu served as a film director of China Intercontinental Communication Center (五洲傳播中心) of State Council Information Office of the PRC (中華人民共和國國務院新聞辦公室). He served as editor in chief of Panda TV and as director of Flying Rainbow Communication Co., Ltd. from 1995 to 1998. In 1999, Mr. Liu founded Beijing Dongfang Jiayuan Culture & Art Development Company Limited (北京東方家園文化藝術發展有限公司), a company engaged in the development of art and culture, and has been the managing director of the same company since then. Mr. Liu's experience in the State Council Information Office assists the Group in understanding governmental policies of the PRC, in particular those which may affect the industry which the company currently operates in. Mr. Liu received his Bachelor's degree in Science from Jilin University (吉林大學) in 1987.

LEE Siang Chin, aged 64, is an Independent Non-executive Director, the chairman of the audit committee and a member of the remuneration committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Lee has over 39 years of experience in the provision of finance consultancy services for companies in Malaysia, London, Australia and Hong Kong. Mr. Lee serves as directors in the following companies:

Company	Position held	Listing Status	Year of Appointment
Star Publications (Malaysia) Bhd.	Independent Non-executive Director	Listed on Bursa Malaysia (Malaysia Stock Exchange)	2010
Value Partners Group Limited	Independent Non-executive Director	Listed on the Stock Exchange (stock code: 0806)	2007
AmFutures Sdn. Bhd.	Independent Non-executive Director	Not listed	2005
AmInvestment Services Sdn. Bhd.	Independent Non-executive Director	Not listed	2003
AmInvestment Management Sdn. Bhd.	Independent Non-executive Director	Not listed	2012
UniAsia Life Assurance Bhd.	Independent Non-executive Director	Not listed	2006
Social Security Organisation	Independent Non-executive Director	Not listed	2007
AmFraser Securities Pte. Ltd.	Independent Non-executive Director	Not listed	1991

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

Mr. LIU Haisheng (劉海勝), aged 66, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive Director on 21 December 2012. Mr. Liu is a Senior Economist of Professor level and an expert enjoying State Council special allowance. He is a party member of the Communist Party of China. Mr. Liu worked as Office Director of the Second Machinery Factory of China National Petroleum Corporation ("CNPC") Changqing Oil Field, Plant Director, Deputy Factory Director and Factory Director of the First Machinery Factory of China-North Oil Field, Deputy Director and Director of China-North Petroleum Bureau, Director of Planning Department and Assistant to General Manager of CNPC. He is a deputy to the 8th People's Congress of Hebei Province and a deputy to the 9th National People's Congress. Mr. Liu has over 35 years of experience in the petroleum industry and is expertise in machinery manufacturing, exploration and exploitation of oil fields, manufacturing and operation management of petrochemical enterprises. He has a high level knowledge of macro economy. Mr. Liu graduated from Beijing Institute of Petroleum in 1970.

SENIOR MANAGEMENT

For biographies of Mr. ZHANG Jun, Mr. WANG Tao (汪濤) and Mr. JI Min, see "– BOARD OF DIRECTORS – Executive Directors". For biography of Ms. ZHANG Shuman, see "– BOARD OF DIRECTORS – Non-executive Directors". Other members of our senior management team consist of the following.

Mr. CHEN Su (陳甦), aged 54, is the general manager of Hilong Group of Companies Ltd. since 2007 and a director of Hilong Oil Services and Engineering Co., Ltd. since 2008. Mr. Chen has over 30 years of experience in the petroleum industry. From 1982 to 2005, he worked in the department of steel pipe manufacturing of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司) and served as its branch factory manager, deputy general manager and general manager. In 2005, he also served as the deputy general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). Mr. Chen received a Bachelor's degree in Engineering from Shanghai University of Technology (上海工業大學) in 1982.

Mr. DAI Daliang (代大良), aged 46, is a director of Hilong Drilling & Supply FZE since 2010, a director of Hilong Oil Services and Engineering Nigeria Limited since 2010 and a director and the general manager of Hilong Oil Service & Engineering Co., Ltd. since 2008. Mr. Dai has over 23 years of experience in the petroleum industry. Prior to joining our Group, from 1989 to 1995, Mr. Dai worked as engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司) and was engaged in drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司) and was engaged in international drilling cooperation. From 1996 to 2008, he worked for Greatwall Drilling Company Limited ("GWDC", 中油長城鑽井有限公司) as its co-manager of marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by GWDC. In 2008, he worked as assistant to general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's degree in Engineering from Central South University of Technology in 1990 and a Doctorate degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. LIU Yizhuang (劉義壯), aged 50, is the general manager of the international business department of Hilong Group of Companies Ltd. since 2006 and is responsible for matters relating to international trade. Mr. Liu has over 27 years of experience in the petroleum industry. He started his professional career when he joined Offshore Oil Engineering Design Co., Ltd. (海洋石油工程設計公司), a subsidiary of China National Offshore Oil Corp (中國海洋石油總公司), in 1985. During his employment with Offshore Oil Engineering Design Co., Ltd., he participated in several offshore oil engineering construction projects, including the development of Bozhong 28–1 and Jinzhou 20–2 Oilfields. From 1992 to 2005, he served as general manager of oil business department of the Beijing office of Tenaris Global Services S.A., a leading enterprise in the world's seamless steel pipe industry, and was responsible for the sales and after-sale services of oil pipes in East Asia. Mr. Liu received his Bachelor's degree in Engineering from China University of Petroleum (Huadong) (中國石油大學(華東)) (formerly known as East China Petroleum Institute (華東石油學院)) in 1985. He completed the Program for Executive Development in International Institute for Management Development, Lausanne in 2001.

Mr. CAO Yuhong (曹育紅), aged 43, is the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 21 years of experience in the petroleum industry. Prior to joining our Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau and served as its deputy manager of coating branch from 1996. Mr. Cao received a Bachelor's degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學) in 1991.

Mr. FANG Junfeng (方軍鋒), aged 42, is a director and the general manager of Shanghai Hilong Shine New Material Co., Ltd. since 2006 and a director and the general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. since 2008. Mr. Fang has over 19 years of experience in tubular goods research. Prior to joining our Group, from 1993 to 1999, Mr. Fang served as director of anti-corrosion research laboratory in CNPC Tubular Goods Research Institute (中國石油天然氣集團管材研究所). From 2002 to 2003, he served as director of on-site inspection department in CNPC Tubular Goods Research Institute. From 2003 to 2004, he served as chairman and general manager in Shaanxi Ante Technology Engineering Company Limited (陝西安特技術工程有限公司). Mr. Fang received his Bachelor's degree in Engineering from Hunan University (湖南大學) in 1993 and his Master's degree in Engineering from Xi'an Jiaotong University (西安交通大學) in 2003.

Mr. GAO Zhihai (高智海), aged 43, is the chairman and general manager of Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 17 years of experience in the petroleum industry. Prior to joining our Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received from Southwest Petroleum University (西南石油學院) a Bachelor's degree in Engineering in 1992 and a Master's degree in Engineering in 1995. Mr. Gao was named an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. XUE Zhijun (薛志軍), aged 49, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. Mr. Xue has over 8 years of experience in the petroleum industry. Prior to joining our Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as deputy manager of CNPC Bohai Petroleum Equipment Manufacturing Company Limited First Machinery Factory (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded an "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction" (國家西氣東輸工程建設先進個人) by National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and an "Outstanding Entrepreneur in Hebei Province" (河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

JOINT COMPANY SECRETARIES

Ms. CHENG Pik Yuk (鄭碧玉), aged 55, is a corporate services director of Tricor Services Limited, providing corporate secretarial services to client companies. Prior to joining the Tricor Group, she was a senior manager of the company secretarial department of Deloitte Touche Tohmatsu and also served as the departmental manager. Ms. Cheng has worked in the company secretarial departments of a number of international accounting firms and has over 30 years of experience in the company secretarial field. She has been providing corporate secretarial support services to listed companies and multi-national groups. Ms. Cheng is a Fellow Member of The Institute of Chartered Secretaries and Administrators in the U.K. and The Hong Kong Institute of Chartered Secretaries ("HKICS"), and is a holder of the Practitioner's Endorsement of the HKICS. She was appointed as a joint company secretary of the Company on 10 February 2011.

Ms. ZHANG Shuman (張姝嫚), aged 39, was appointed as a joint company secretary of the Company on 10 February 2011. Ms. Zhang has over 5 years of experience in corporate secretarial services. She acted as secretary to the board of directors of UMW Ace (L) Ltd. from 2003 to 2006. For further details regarding Ms. Zhang's experience, see "– BOARD OF DIRECTORS – Non-executive Directors" above.

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2012.

The Company has adopted the Corporate Governance Code (formerly known as Code on Corporate Governance Practices) (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance. The Company has applied the principles set out in the former Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the new Corporate Governance Code during the period from 1 April 2012 to 31 December 2012. The manner in which the principles and code provisions in the CG Code are applied and implemented during the year ended 31 December 2012 (the "year") is explained in this Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the directors, the Company has complied with all code provisions as set out in the CG Code throughout the year save for the deviations from code provisions A.2.1 and A.6.7 which deviations are explained in the relevant paragraphs of this Corporate Governance Report.

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

THE BOARD OF DIRECTORS

Responsibilities, Accountabilities and Contributions of the Board

The Board is responsible for leadership and control of the Company and oversees the businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising the affairs of the Company and its members companies (the "Group"). Directors of the Board make decisions objectively in the interests of the Company.

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

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

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

In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

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

The directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

Board composition

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

The Board of the Company comprises the following directors:

Executive Directors:
ZHANG Jun *(Chairman and Chief Executive Officer)*
WANG Tao (汪濤) *(Executive President)*
JI Min *(Chief Financial Officer)*

Non-executive Directors:
ZHANG Shuman *(Chief Strategy Officer)*
YUAN Pengbin
LI Huaiqi

Independent Non-executive Directors:
WANG Tao (王濤)
LIU Qihua
LEE Siang Chin
LIU Haisheng

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

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

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

The Company has received written annual confirmation from each independent non-executive director of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors are independent.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

The roles of chairman and chief executive officer of the Company are not separate and are both 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 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.

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

Non-executive Directors and Re-election of Directors

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

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's articles of association. Pursuant to the Company's articles of association, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy shall hold office until the first general meeting of the Company after his appointment and be eligible for re-election thereat and any director appointed as an addition to the Board shall hold office until the next following annual general meeting of the Company after his appointment and be eligible for re-election thereat.

Continuing Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for directors will be arranged and reading material on relevant topics will be issued to directors where appropriate. All directors are encouraged to attend relevant training courses at the Company's expenses.

During the year, relevant reading materials including legal and regulatory update and seminar handouts relating to amendments to Hong Kong Listing Rules relating to corporate governance, guide on connected transaction rules and disclosure of inside information have been provided to all directors (except Mr. LIU Haisheng who was appointed as Independent Non-executive Director on 21 December 2012) namely Mr. ZHANG Jun, Mr. WANG Tao (汪濤), Mr. JI Min, Ms. ZHANG Shuman, Datuk SYED HISHAM Bin Syed Wazir (former Non-executive Director), Mr. YUAN Pengbin, Mr. LI Huaiqi, Mr. WANG Tao (王濤), Mr. LIU Qihua and Mr. LEE Siang Chin, for their reference and studying.

Board Meetings

Board Practices and Conduct of Meetings

Directors' resolutions were passed by way of written resolutions or by physical meetings during the year.

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance. Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is required to be given.

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

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

During the year, the Company held a total of five board meetings, four of which were regular board meetings for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

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

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and HKEx website.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 3.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year, the Audit Committee held three meetings to review annual financial results and report in respect of the year ended 31 December 2011, interim financial results and report in respect of the six months ended 30 June 2012 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his / her associates will participate in deciding his/her own remuneration.

During the year, the Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and senior management and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of Independent Non-executive Directors.

The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year, the Nomination Committee met three times to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the annual general meeting.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Up to the date of this annual report, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance records of each director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee and the general meetings held during the year are set out below:

	Attendance / Number of Meetings during the tenure of directorship				
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
ZHANG Jun	5/5	N/A	N/A	N/A	1/1
WANG Tao (汪濤)	5/5	2/2[(1)]	N/A	1/1[(2)]	1/1
JI Min	5/5	N/A	N/A	N/A	1/1
ZHANG Shuman	5/5	1/1[(2)]	N/A	2/2[(1)]	1/1
Datuk SYED HISHAM Bin Syed Wazir[#]	4/5	N/A	N/A	N/A	1/1
YUAN Pengbin	5/5	N/A	2/2	N/A	0/1
LI Huaiqi	4/5	N/A	N/A	N/A	1/1
WANG Tao (王濤)	5/5	3/3	2/2	3/3	0/1
LIU Qihua	4/5	2/3	N/A	N/A	0/1
LEE Siang Chin	5/5	N/A	2/2	3/3	1/1
LIU Haisheng*	N/A	N/A	N/A	N/A	N/A

resigned on 15 March 2013
* appointed with effect from 21 December 2012
(1) since 29 March 2012
(2) up to 29 March 2012

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

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

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

INTERNAL CONTROLS

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

During the year, the Board conducted a review of the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and is satisfied with its effectiveness.

AUDITORS' REMUNERATION

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 44 to 45 of this annual report.

During the year ended 31 December 2012, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	**Fees Paid/ Payable**
	RMB'000
Audit Services	3,000
Non-audit Services	491
Total	3,491

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner. The Chairman of the Board and other members of the Board including non-executive directors and independent non-executive directors as well as Chairmen of the Nomination Committee, Remuneration Committee and Audit Committee (or their delegates) and, where applicable, the Chairman of the independent Board committee, are available to meet shareholders and answer questions at shareholder meetings.

Mr. YUAN Pengbin, Non-executive Director and Mr. WANG Tao (王濤) and Mr. LIU Qihua, Independent Non-executive Directors, were unable to attend the 2012 annual general meeting held on 11 May 2012 due to business engagement. These directors will use their best endeavours to attend all future shareholders' meetings of the Company.

COMPANY SECRETARY

Ms. Cheng Pik Yuk of Tricor Services Limited, external service provider, has been engaged by the Company as its joint company secretary. Its primary contact persons at the Company are Ms. Zhang Shuman, Non-executive Director, Chief Strategy Officer and Joint Company Secretary of the Company, and Mr. Gavin Song Xin, Legal Counsel of the Company.

SHAREHOLDERS' RIGHTS

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

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and the Company's Articles of Association and results of the poll will be posted on the Company's website and HKEx website after each shareholder meeting.

Pursuant to the Articles of Association, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

As regards proposing a person for election as a director of the Company, please refer to the procedures posted on the Company's website.

Shareholders may send written enquiries or requests to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	Suite 3206, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (For the attention of Ms. Zhang Shuman, Company Secretary)
Fax:	+852 2506 0109
Email:	amyszhang@hilonggroup.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is available on the Company's website and HKEx website. Shareholders may refer to the Articles of Association for further details of their rights.

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is an integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and oil country tubular goods coatings and oilfield services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated financial statements of this annual report.

DIVIDEND

During the year ended 31 December 2012, a final dividend of HK6.9 cents per share, amounting to a total dividend of approximately HK$109.8 million (equivalent to approximately RMB89.0 million) for the year ended 31 December 2011, was paid to shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK7.6 cents per share, amounting to approximately HK$123.9 million (equivalent to approximately RMB100.5 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2012, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM"). Upon approval of the shareholders at the AGM, the proposed final dividend will be paid on 27 May 2013 to the shareholders of the Company whose names appear on the register of members of the Company as at 20 May 2013.

RESERVES

Details of movement in the reserves of the Group for the year ended 31 December 2012 are set out in note 17 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2012, the reserves of the Company available for distribution to shareholders amounted to RMB950.4 million (2011: RMB939.2 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest and five largest customers were 6.9% and 26.8% of the Group's total sales respectively (2011: 8.7% and 28.8% (restated)). The aggregate purchases attributable to the Group's largest and five largest suppliers were 9.6% and 29.1% of the Group's total purchases respectively during the year under review (2011: 13.0% and 37.2%).

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

BANK AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2012 are set out in note 18 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year under review amounted to RMB81,000 (2011: RMB860,600).

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

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

CONVERTIBLE BONDS

On 9 December 2011, the Company issued 3.5% unsecured convertible bonds due 2014 in an aggregate principal amount of HK$233,250,000 (the "Bonds") to CITIC Capital China Access Fund Limited ("CITIC Capital") at the issue price of 100% of the principal amount of the Bonds (the "Issue"). The net proceeds from the Issue, after deduction of expenses, amount to approximately HK$232 million. Assuming full conversion of the Bonds at the initial conversion price of HK$2.40 per share, the Bonds would be convertible into approximately 97,187,500 shares, representing approximately 6.07% of the issued share capital of the Company as of the date of the Issue. The Bonds are not listed on the Stock Exchange and any other stock exchange. Details of the Issue and the principal terms of the Bonds are set out in the Company's announcement dated 30 November 2011.

In February 2013, CITIC Capital elected to exercise its conversion rights attached to the Bonds to convert part of the Bonds in an aggregate principal amount of HK$93,300,000 into 38,875,000 shares of the Company (the "Conversion Shares") at the conversion price of HK$2.40 per share. The Conversion Shares were allotted and issued to CITIC Capital on 21 February 2013. The Conversion Shares represent approximately 2.38% of the issued share capital of the Company as of the date of this annual report. The remaining Bonds held by CITIC Capital in an aggregate principal amount of HK$139,950,000 remain outstanding as of the date of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 128 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the year are as follows:

Executive Directors

Mr. Zhang Jun (張軍)
Mr. Wang Tao (汪濤)
Mr. Ji Min (紀敏)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Datuk Syed Hisham Bin Syed Wazir(1)
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)(2)

(1) Datuk Syed Hisham Bin Syed Wazir resigned as a Non-executive Director with effect from 15 March 2013.

(2) Mr. Liu Haisheng was appointed as an Independent Non-executive Director on 21 December 2012. For the information in relation to the Directors of the Company as of the date of this annual report, please refer to the section headed "Corporate Information" as set out in page 3 of this annual report.

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

Pursuant to article 83(3) of the Articles, Mr. Liu Haisheng will retire as Director at the forthcoming AGM of the Company, whereas Mr. Zhang Jun, Mr. Wang Tao (王濤) and Mr. Lee Siang Chin will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with article 84 of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

EMOLUMENT POLICY

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

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

As at 31 December 2012, the total number of full-time employees of the Group was 2,088 (31 December 2011: 1,738). Employee costs excluding the Directors' remuneration totalled RMB292,706,000 for the year of 2012. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

The Company 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.

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

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2012 were within the following bands:

	Number of Senior Management
HK$1,000,001 to HK$2,000,000	4
HK$2,000,001 to HK$2,500,000	2
HK$2,500,001 to HK$3,000,000	1
	7

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as the Pre-IPO Share Option Scheme, at no time during the year was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a Pre-IPO share option scheme (the "Scheme") on 28 February 2011. The Scheme commenced on 1 January 2011. The following is a summary of the principal terms of the Scheme:

(a) Purpose

The Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) have or may have made to the Company. The Scheme will provide the Eligible Participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Company; and

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

(b) Who may join

The eligible participants (collectively the "Eligible Participants") under the Scheme include the following:

(i) the full-time employees, executives or officers (including Executive, Non-executive and Independent Non-executive Directors) of the Company;

(ii) the full-time employees of any of the subsidiaries of the level of manager or above;

(iii) technical experts that have contributed or will contribute to the Company and/or any of its subsidiaries; and

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

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

(c) Maximum number of Shares

The total number of shares subject to the Scheme is 46,322,000 shares, representing approximately 2.8% of the issued share capital of the Company as of the date of this annual report. During the year of 2011, all the options under the Scheme that would entitle the holders to subscribe for an aggregate of 46,322,000 shares have been granted. Certain Eligible Participants have been granted options that entitle each of them to subscribe for 2,150,000 shares, representing approximately 0.13% of the issued share capital of the Company as of the date of this annual report, being the highest entitlement for each participant under the Scheme.

(d) Price of Shares

The subscription price of a share in respect of any particular option granted under the Scheme shall be a price equivalent to the offer price of the Company's shares under the Global Offering, being HK$2.60.

(e) Time of exercise of option and duration of the Scheme

The grantees to whom options has been granted under the Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of 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, which must not be more than 10 years from the Listing Date.

(f) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the expiry of the respective stated exercise period in the Scheme;

(ii) the date of expiry of the option as may be determined by the Board;

(iii) the date of commencement of the winding-up of the Company in accordance with the Companies Law of the Cayman Islands;

(iv) the date on which the grantee ceases to be an Eligible Participant for any reason. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

(v) the date on which the Board shall exercise the Company's right to cancel the option in the case that the Scheme is terminated by resolution in general meeting or by the Board.

The following table sets out particulars of the options granted under the Scheme and their movements during the year:

	Number of share options							
Category/name of participants	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2012	Exercise price HK$	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	39,219,000	–	–	(519,000)	38,700,000	2.60	1 January 2011	21 April 2012 – 31 December 2020
Total	45,519,000	–	–	(519,000)	45,000,000			

DISCLOSURE OF INTERESTS

A. Directors' interests and short positions in the securities of the Company and its associated corporations

As at 31 December 2012, the interests and short positions of the Directors and 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 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)	56.70%
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,000,800(2)	7.04%
	Beneficial owner	760,000	0.05%
Ms. Zhang Shuman	Interest of controlled corporation	24,000,000(3)	1.51%
	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	1,000,000	0.06%
Mr. Lee Siang Chin	Interest of controlled corporation	400,000(4)	0.03%

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 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	0.14%
Mr. Wang Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.14%

(c) Long positions in the shares of the 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%

B. Substantial shareholders' interests or short positions in the securities of the Company

As at 31 December 2012, 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 were as follows:

Long position in the shares of the Company

Name of shareholder	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	902,212,000[(1)]	56.70%
Global Nominees Ltd.	Nominee	1,051,042,000[(1)(2)]	66.05%
Standard Chartered Trust (Cayman) Limited	Trustee	1,051,042,000[(1)(2)]	66.05%
Ms. Gao Xia	Interest of spouse	1,015,572,800[(3)]	63.82%
CITIC Capital China Access Fund Limited	Beneficial owner	97,187,500[(4)]	6.11%
CITIC Capital Holdings Limited	Interest of controlled corporation	97,187,500[(4)]	6.11%
China Investment Corporation	Interest of controlled corporation	97,187,500[(4)]	6.11%
	Interest of controlled corporation	3,869,000[(5)]	0.24%
CITIC Limited	Interest of controlled corporation	97,187,500[(4)]	6.11%
CITIC Group	Interest of controlled corporation	97,187,500[(4)]	6.11%

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.

(4) 97,187,500 shares (subject to adjustment) will be issued to CITIC Capital China Access Fund Limited upon its exercise of the conversion rights under the 3.5% convertible bonds due 2014 held by it. CITIC Capital China Access Fund Limited is wholly-owned by CITIC Capital Investment Management (Cayman) Limited, which is in turn wholly-owned by CITIC Capital Asset Management Limited, which is a wholly-owned subsidiary of CITIC Capital Holdings Limited. CITIC Capital Holdings Limited is i) 40% owned by Warlord Investment Corporation which is wholly-owned by CIC International Co., Limited, which is in turn a wholly-owned subsidiary of China Investment Corporation; and ii) 55% owned by CITIC Limited which is wholly-owned by CITIC Group. Each of CITIC Capital Holdings Limited, China Investment Corporation, CITIC Limited and CITIC Group is therefore deemed to have interests in these underlying shares.

(5) These shares are held by Best Investment Corporation, which is wholly-owned by CIC International Co., Limited, which is in turn a wholly-owned subsidiary of China Investment Corporation. China Investment Corporation is therefore deemed to have interests in these shares.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2012 is contained in note 33 to the consolidated financial statements. The transactions between the Group and Shanghai Yuanzhi Metallurgical Co., Ltd., Shanghai Xinhao Technology Development Co., Ltd., Jiangyan Hilong Wire Welding Co., Ltd., Hilong Oil Pipe Co., Ltd. and Beijing Huashi Hilong Oil Investments Co., Ltd. as described in note 33 fall under the definition of continuing connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

Particulars of the continuing connected transactions that are not exempt under Rule 14A.33 of the Listing Rules are set out as follows:

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

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

As at 31 December 2012, Mr. Zhang Jun (張軍), the controlling shareholder and director of the Company, and his associates, hold the entire share capital in Hilong Oil Pipe. As such, Hilong Oil Pipe is an associate of Mr. Zhang and a connected person of the Company. The lease under the Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is C$1,038,040 (approximately RMB6,559,000). The proposed annual caps for the lease under the Tenancy Agreement for the three years ending 31 December 2013 are C$1,038,040, C$1,038,040 and C$1,038,040, respectively. The annual rental payable under the lease is determined on normal commercial terms. The Company's valuer, Jones Lang LaSalle Sallmanns, has confirmed that the rental payable under the lease is fair, reasonable and is consistent with the prevailing market rates for similar properties in similar locations in Canada.

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

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

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

As at the 31 December 2012, Mr. Zhang Jun (張軍), the controlling shareholder and director of the Company, owns 95.65% of the interest in Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("Huashi Hailong"), which in turns holds 60% of interest in Hebei Zhongxin. As such, Hebei Zhongxin is an associate of Mr. Zhang and a connected person of the Company. The transactions under the Master Sales Agreement therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

For each of the three years ended 31 December 2010, the total transaction amount for the sales of spare parts amounted to approximately RMB474,000, RMB19,000 and RMB756,000, respectively. The sale in 2010 primarily represented sale of small scale drilling rig components to Hilong Oil Service. The annual caps for the sales transactions under the Master Sales Agreement for the three years ending 31 December 2013 have been set at approximately RMB8 million, RMB12 million and RMB12 million, respectively. The substantial increase in transaction volume is a result of expected increase in the demand of drilling rigs by the Group and the expected commencement of purchases of large scale drilling rig components in 2011, including electric-controlled equipment, by Hilong Oil Service from Hebei Zhongxin. Each set of electric-controlled equipment is expected to cost RMB3.5 million to RMB4.0 million, and the Group expects to purchase two, three and three sets of such equipment for the three years ending 31 December 2013, respectively.

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

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

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

As at the 31 December 2012, Mr. Zhang Jun (張軍), the controlling shareholder and director of the Company, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. Zhang and a connected person of the Company. The lease under the Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is RMB7.9 million. The proposed annual caps for the lease under the Tenancy Agreement for the three years ending 31 December 2013 are RMB7.9 million, RMB7.9 million and RMB7.9 million, respectively. The annual rental payable under the lease is determined on normal commercial terms. The Company's valuer, Jones Lang LaSalle Sallmanns, has confirmed that the rental payable under the lease is fair, reasonable and is consistent with the prevailing market rates for similar properties in similar locations in the PRC.

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

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

The Independent Non-executive Directors of the Company have conducted the annual review on the above continuing connected transactions and confirm that all the above transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor, PricewaterhouseCoopers, has issued an unqualified letter to the Board in respect of the continuing connected transactions of the Company disclosed above confirming the matters stated in Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange in accordance with Rule 14A.38 of the Listing Rules.

In respect of transaction A, as disclosed above, the term of lease under the Tenancy Agreement ended on 28 February 2013. On 22 March 2013, Hilong Petropipe Co., Ltd., as tenant, entered into a new tenancy agreement ("New Tenancy Agreement") with Hilong Oil Pipe, as landlord, to renew the existing lease for a term of three years from 1 March 2013 to 29 February 2016. The annual rent under the New Tenancy Agreement remains C$1,038,040. The proposed annual caps for the lease under the New Tenancy Agreement for the years ending 31 December 2013, 2014, 2015 and 2016 are C$865,033 (10 months), C$1,038,040, C$1,038,040 and C$173,007 (2 months) respectively. The annual caps are determined based on the annual rent under the New Tenancy Agreement. The annual rent was determined through arm's length negotiation between the two parties with reference to the prevailing market rate for comparable premises and the annual rent under the Tenancy Agreement. As one of the relevant percentage ratios under Chapter 14 of the Listing Rules, on an annual basis, is more than 0.1% but less than 5%, the continuing connected transaction contemplated under the New Tenancy Agreement is exempted from the independent shareholders' approval requirement but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. For more particulars in relation to the New Tenancy Agreement and the transaction contemplated thereunder, please refer to the announcement of the Company dated 22 March 2013.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year ended 31 December 2012 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

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

The Company purchased a total of 8,660,000 Shares on the Stock Exchange in 2011, out of which 4,784,000 Shares were cancelled on delivery of the share certificates on 21 December 2011 and 3,876,000 Shares were cancelled on delivery of the share certificates on 9 January 2012.

Other than the information disclosed above, there was no other purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the year ended 31 December 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

The Company has received an annual confirmation from the Controlling Shareholders in respect of their compliance with the non-competition undertakings under the Deed throughout the year of 2012. The Independent Non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders.

AUDITOR

The financial statements for the year ended 31 December 2012 have been audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming AGM for the re-appointment of PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board
Zhang Jun
Chairman

Hong Kong, 24 March 2013

羅兵咸永道

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

We have audited the consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 46 to 127, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2013

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000 (Restated) (Note 32(a))
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**1,253,744**	1,096,113
Lease prepayments	*7*	**85,566**	86,589
Intangible assets	*8*	**71,094**	69,397
Investments in associates	*9*	**53,683**	53,539
Investments in jointly controlled entities	*10*	**21,828**	5,143
Deferred income tax assets	*11*	**93,504**	60,832
Other long-term assets		**2,216**	553
		1,581,635	1,372,166
Current assets			
Inventories	*13*	**586,344**	509,510
Trade and other receivables	*14*	**1,385,225**	1,313,152
Restricted cash	*15*	**82,965**	56,801
Cash and cash equivalents	*15*	**403,962**	325,500
		2,458,496	2,204,963
Total assets		**4,040,131**	3,577,129
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*16*	**133,613**	133,927
Other reserves	*17*	**774,039**	764,232
Retained earnings			
– Proposed final dividend	*29*	**100,462**	89,017
– Others		**1,146,171**	906,623
Currency translation differences		**(36,709)**	(33,650)
		2,117,576	1,860,149
Non-controlling interests		**187,858**	178,473
Total equity		**2,305,434**	2,038,622

The notes on pages 54 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000 (Restated) (Note 32(a))
LIABILITIES			
Non-current liabilities			
Borrowings	18	292,971	178,741
Deferred income tax liabilities	11	95,872	86,951
Derivative financial instruments	18(c)	33,526	12,810
Deferred revenue	19	20,989	20,250
		443,358	298,752
Current liabilities			
Trade and other payables	20	582,775	624,860
Current income tax liabilities		61,903	31,539
Borrowings	18	646,261	582,956
Deferred revenue	19	400	400
		1,291,339	1,239,755
Total liabilities		1,734,697	1,538,507
Total equity and liabilities		4,040,131	3,577,129
Net current assets		1,167,157	965,208
Total assets less current liabilities		2,748,792	2,337,374

The notes on pages 54 to 127 are an integral part of these financial statements.

The financial statements on pages 46 to 127 were approved by the Board of Directors on 22 March 2013 and were signed on its behalf.

Zhang Jun	**Ji Min**
Director	*Director*

BALANCE SHEET
AS AT 31 DECEMBER 2012

	Note	As at 31 December 2012 RMB'000	 2011 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	*12*	**20,325**	11,214
Current assets			
Trade and other receivables	*14*	**1,324,848**	1,187,612
Cash and cash equivalents	*15*	**4,404**	81,329
		1,329,252	1,268,941
Total assets		**1,349,577**	1,280,155
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*16*	**133,613**	133,927
Other reserves	*17*	**866,157**	860,647
Retained earnings			
– Proposed final dividends	*29*	**100,462**	89,017
– Others		**4,771**	1,176
Total equity		**1,105,003**	1,084,767
LIABILITIES			
Non-current liabilities			
Borrowings	*18(c)*	**204,903**	178,741
Derivative financial instruments	*18(c)*	**33,526**	12,810
		238,429	191,551
Current liabilities			
Trade and other payables	*20*	**6,145**	3,837
Total liabilities		**244,574**	195,388
Total equity and liabilities		**1,349,577**	1,280,155
Net current assets		**1,323,107**	1,265,104
Total assets less current liabilities		**1,343,432**	1,276,318

The notes on pages 54 to 127 are an integral part of these financial statements.

The financial statement on pages 46 to 127 were approved by the Board of Directors on 22 March 2013 and were signed on its behalf.

Zhang Jun
Director

Ji Min
Director

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000 (Restated) *(Note 32(a))*
Revenue	*5*	**2,264,373**	1,833,519
Cost of sales	*21*	**(1,369,093)**	(1,082,197)
Gross profit		**895,280**	751,322
Selling and marketing expenses	*21*	**(117,253)**	(109,454)
Administrative expenses	*21*	**(285,634)**	(245,360)
Other income	*24*	**–**	34,067
Other losses – net	*25*	**(14,867)**	(9,243)
Operating profit		**477,526**	421,332
Finance income	*26*	**1,503**	1,192
Finance costs	*26*	**(73,227)**	(46,748)
Finance costs – net		**(71,724)**	(45,556)
Share of results of:			
– Associates	*9*	**1,716**	(4,096)
– Jointly controlled entities	*10*	**(945)**	(6,754)
Profit before income tax		**406,573**	364,926
Income tax expense	*27*	**(45,146)**	(45,034)
Profit for the year		**361,427**	319,892
Profit attributable to:			
Equity owners of the Company		**345,001**	302,020
Non-controlling interests		**16,426**	17,872
		361,427	319,892
Earnings per share from operations attributable to the equity owners of the Company during the year (expressed in RMB per share)			
Basic earnings per share	*28*	**0.2168**	0.2065
Diluted earnings per share	*28*	**0.2168**	0.2065

The notes on pages 54 to 127 are an integral part of these financial statements.

Dividends	*29*	**100,462**	89,017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
		(Note 32(a))
Profit for the year	**361,427**	319,892
Other comprehensive income:		
Currency translation differences	**(954)**	(6,175)
Exchange differences arising from monetary items that form part of the Group's net investment in certain foreign subsidiaries	**(2,105)**	(16,015)
Other comprehensive income for the year, net of tax	**(3,059)**	(22,190)
Total comprehensive income for the year	**358,368**	297,702
Attributable to:		
Equity owners of the Company	**341,942**	279,830
Non-controlling interests	**16,426**	17,872
	358,368	297,702

The notes on pages 54 to 127 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

		Capital and reserves attributable to equity owners						
	Note	Ordinary shares 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 31 December 2010 as previously reported		811	(82,328)	776,116	(11,803)	682,796	222,813	905,609
Business combination under common control	*32(a)*	–	7,033	(22,824)	343	(15,448)	–	(15,448)
As at 1 January 2011 as restated		811	(75,295)	753,292	(11,460)	667,348	222,813	890,161
Comprehensive income								
Profit for the year		–	–	302,020	–	302,020	17,872	319,892
Other comprehensive income								
Currency translation differences		–	–	–	(6,175)	(6,175)	–	(6,175)
Exchange differences arising from monetary items that form part of the Group's net investment in certain foreign subsidiaries		–	–	–	(16,015)	(16,015)	–	(16,015)
Total comprehensive income for the year		–	–	302,020	(22,190)	279,830	17,872	297,702
Appropriation to statutory reserve	*17(1)*	–	7,392	(7,392)	–	–	–	–
Transactions with owners								
Issue of new shares pursuant to global initial public offering, netting of listing expenses	*16(e)*	33,576	783,905	–	–	817,481	–	817,481
Series A preferred shares converted into ordinary shares	*16(f)*	4	170,128	–	–	170,132	–	170,132
Capitalization issue	*16(g)*	99,924	(99,924)	–	–	–	–	–
Capital increase to subsidiaries by their then equity owners	*17(2)*	–	19,767	–	–	19,767	–	19,767
Share repurchase	*17(4)*							
– repurchases of shares		(388)	–	–	–	(388)	–	(388)
– premium on repurchase of shares		–	(5,064)	–	–	(5,064)	–	(5,064)
– transfer		–	388	(388)	–	–	–	–
Non-controlling interests' contributions to the Group		–	–	–	–	–	2,960	2,960
Consideration paid to the then equity owners for acquisition of subsidiaries under common control	*17(2)*	–	(9,529)	–	–	(9,529)	–	(9,529)
Pre-IPO share option plan	*17(3)*	–	11,214	–	–	11,214	–	11,214
Dividends in respect of 2010		–	–	(51,892)	–	(51,892)	–	(51,892)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(5,780)	(5,780)
Non-controlling interests arising on business combination	*32*	–	–	–	–	–	10,286	10,286
Changes in ownership interests in subsidiaries without change of control	*34*	–	(38,750)	–	–	(38,750)	(69,678)	(108,428)
As at 31 December 2011 as restated		133,927	764,232	995,640	(33,650)	1,860,149	178,473	2,038,622

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

		Capital and reserves attributable to equity owners						
	Note	Ordinary shares 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 31 December 2011 as previously reported		133,927	742,707	1,018,135	(34,625)	1,860,144	178,473	2,038,617
Business combination under common control	*32(a)*	–	21,525	(22,495)	975	5	–	5
As at 1 January 2012 as restated		133,927	764,232	995,640	(33,650)	1,860,149	178,473	2,038,622
Comprehensive income								
Profit for the year		–	–	345,001	–	345,001	16,426	361,427
Other comprehensive income								
Currency translation differences		–	–	–	(954)	(954)	–	(954)
Exchange differences arising from monetary items that form part of the Group's net investment in certain foreign subsidiaries		–	–	–	(2,105)	(2,105)	–	(2,105)
Total comprehensive income for the year		–	–	345,001	(3,059)	341,942	16,426	358,368
Appropriation to statutory reserve	*17(1)*	–	4,677	(4,677)	–	–	–	–
Transactions with owners								
Share repurchase	*17(4)*							
– 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 owners for acquisition of subsidiaries under common control	*17(2)*	–	(380)	–	–	(380)	–	(380)
Pre-IPO share option plan	*17(3)*	–	9,111	–	–	9,111	–	9,111
Dividends in respect of 2011	*29*	–	–	(89,017)	–	(89,017)	–	(89,017)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(7,041)	(7,041)
As at 31 December 2012		133,613	774,039	1,246,633	(36,709)	2,117,576	187,858	2,305,434

The notes on pages 54 to 127 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

		Year ended 31 December	
	Note	**2012 RMB'000**	2011 RMB'000 (Restated) *(Note 32(a))*
Cash flow from operating activities			
Cash generated from operations	*30(a)*	**437,098**	136,139
Interest paid		**(45,385)**	(36,399)
Income tax paid		**(38,533)**	(40,478)
Net cash generated from operating activities		**353,180**	59,262
Cash flow used in investing activities			
Proceeds from disposal of equity interest in an associate	*25(a)*	**3,000**	–
Proceeds from disposal of property, plant and equipment	*30(b)*	**96,938**	15,604
Increase in investments in an associate		**–**	(8,375)
Increase in investments in jointly controlled entities	*10*	**(17,547)**	(16,317)
Purchases of property, plant and equipment		**(377,091)**	(281,145)
Purchases of lease prepayments		**–**	(31,800)
Purchases of intangible assets		**(2,184)**	(2,415)
Cash consideration paid for business combination under common control	*32(a)*	**(380)**	–
Changes in ownership interests in subsidiaries without change of control	*34*	**–**	(108,428)
Acquisition of subsidiaries, net of cash acquired	*32(b)*	**–**	(50,211)
Dividends received	*9*	**1,572**	4,809
Net cash used in investing activities		**(295,692)**	(478,278)
Cash flows from financing activities			
Issue of new shares pursuant to global initial public offering, netting of listing expenses	*16(e)*	**–**	817,481
Contributions to subsidiaries by their then equity owners	*17(2)*	**–**	19,767
Net cash outflow arising from consideration paid to the then equity owners for acquisition of subsidiaries under common control		**–**	(249,528)
Interest paid for the Series A convertible preferred shares	*18(d)*	**–**	(5,814)
Net cash inflow arising from issuance of convertible bonds, net of transaction costs	*18(c)*	**–**	189,274
Subsidiaries' non-controlling interests contribution to these subsidiaries		**–**	2,960
Proceeds from borrowings		**799,804**	557,021
Repayments of borrowings		**(650,486)**	(764,119)
Dividends paid to non-controlling interests of subsidiaries		**(9,186)**	(9,406)
Repurchase of shares, net of transaction costs	*17(4)*	**(2,385)**	(5,452)
Prepayment for shares repurchase in January 2012		**–**	(1,844)
Dividends	*29*	**(89,017)**	(51,892)
Net cash outflow arising from security deposit for bank borrowings		**(27,784)**	(3,000)
Net cash generated from financing activities		**20,946**	495,448
Net increase in cash and cash equivalents		**78,434**	76,432
Exchange losses on cash and cash equivalents		**28**	(7,734)
Cash and cash equivalents at beginning of the year		**325,500**	256,802
Cash and cash equivalents at end of the year		**403,962**	325,500

The notes on pages 54 to 127 are an integral part of these financial statements.

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION

(i) 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 the 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 drilling equipment and coating materials, and provision of coating 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 "Listing").

The consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 22 March 2013.

(ii) History and Reorganization of the Group

Prior to the Reorganization, the business of the Group was owned and operated through two holding companies, Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. ("Huashi Hailong") and Hailong International (L) Ltd. ("Hailong International'). Huashi Hailong is a limited liability company established in the People's Republic of China (the "PRC") in 2001, while Hailong International is a limited liability company established in Malaysia in 2003. Both companies are controlled and beneficially owned by Mr. Zhang Jun, the Controlling Shareholder.

During the period from 2006 to 2008, Huashi Hailong gradually transferred its equity interests in its subsidiaries engaged in the coating materials and service business to Hilong Group of Companies Ltd., a company established in November 2004 in the PRC and held by Huashi Hailong and Hailong International in a ratio of 35% and 65% respectively, after a series of equity contributions made by Huashi Hailong and Hailong International. Hilong Group of Companies Ltd. became a wholly-owned subsidiary of Hailong International in October 2008 upon the transfer of 35% equity interest in Hilong Group of Companies Ltd. from Huashi Hailong.

In preparation for the Listing, the Group underwent the reorganization ("Reorganization") which principally involved:

(a) On 15 October 2008, the Company (formerly named Pacific Energy Holding Limited) was incorporated by Mr. Zhang Jun who then transferred his entire equity interest in the Company on 13 November 2008 to Hilong Group Limited, a limited liability company incorporated on 15 October 2008 in the British Virgin Islands (the "BVI") by Mr. Zhang Jun, for a consideration of HK$0.1.

(b) At a consideration of HK$1.0, the entire equity interest in Hilong Energy Holding Limited (formerly named Pacific Energy International Limited), a limited liability company incorporated on 15 October 2008 in the BVI by Mr. Zhang Jun, was transferred to the Company on 13 November 2008.

(c) On 8 July 2008, Hilong Energy Limited (formerly named Brave Flame Limited) was incorporated in Hong Kong by Harefield Limited, a Hong Kong company wholly-owned by Ms. Zhang Shuman, the sister of Mr. Zhang Jun. On 13 November 2008, Harefield Limited transferred its 100% equity interest in Hilong Energy Limited to Hilong Energy Holding Limited, for a consideration of HK$1.0. As a result, Hilong Energy Limited became a wholly-owned subsidiary of Hilong Energy Holding Limited, which is in turn a wholly-owned subsidiary of the Company.

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION (continued)

(ii) History and Reorganization of the Group (continued)

(d) During the period from July 2010 to March 2011, Hailong International gradually transferred its equity interests in its subsidiaries engaged in manufacturing and distribution of oil and gas drilling equipment and coating materials, and provision of coating and oilfield services, including Hilong Group of Companies Ltd., to Hilong Energy Limited, for a total cash consideration of RMB320,109,000.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the derivative financial instruments at fair value through profit or loss.

The Reorganization was completed on 2 March 2011. As the Controlling Shareholder owned and controlled the companies now comprising the Group before the Reorganization continues to own and control these companies after the Reorganization, the Reorganization has been accounted for in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), under which the financial statements of the Group have been prepared as if the current group structure had been in existence from 1 January 2011, the beginning of the earliest period presented.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

- HKFRS 7 (Amendment) "Disclosures – Transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This amendment promotes transparency in the reporting of transfer transactions and improves users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The change in accounting policy only results in additional disclosures.

(b) Amendments to existing standards effective in 2012 but not relevant to the Group

- HKFRS 1 (Amendment), "Severe hyperinflation and removal of fixed dates for first-time adopters", effective for annual period beginning on or after 1 July 2011.

- HKFRS 12 (Amendment), "Deferred tax: Recovery of underlying assets", effective for annual periods beginning on or after 1 January 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) The following new standards and amendments and interpretation to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group

- HKAS 1 (Amendment) "Presentation of financial statements", effective for the accounting period beginning on or after 1 July 2012.

- HKFRS 10 "Consolidated financial statements", effective for the accounting period beginning on or after 1 January 2013.

- HKAS 27 (revised 2011) "Separate financial statements", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 11 "Joint arrangements", effective for the accounting period beginning on or after 1 January 2013.

- HKAS 28 (revised 2011) "Associates and joint ventures", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 13 "Fair value measurement", effective for the accounting period beginning on or after 1 January 2013.

- HKAS 19 (Amendment) "Employee benefits", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 7 (Amendment) "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities", effective for the accounting period beginning on or after 1 January 2013.

- HK(IFRIC) – Int 20 "Stripping costs in the production phase of a surface mine", effective for the accounting period beginning on or after 1 January 2013.

- Annual improvements 2011, effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 1 (Amendment) "First time adoption on government loans", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 10, 11 and 12 (Amendment) "Transition guidance", effective for the accounting period beginning on or after 1 January 2013.

- 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 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.

The directors anticipate that the adoption of these new standards, amendments to standards and interpretation to standards will not result in a significant impact on the results and financial position of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) *Disposal of subsidiaries*

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

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statements within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statements within "other gains/(losses) – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the companies comprising the Group (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at balance sheet date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation (continued)

(c) Group companies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investing in foreign operations, and of borrowings and other currency instrument designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated income statement as part of the gain or loss on sale.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings and facilities	5 to 40 years
Machinery and equipment	5 to 20 years
Office and electronic equipment	3 to 10 years
Vehicles	3 to 10 years
Leasehold improvement	5 to 10 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses) – net" in the consolidated income statement.

2.8 Lease prepayments

Lease prepayments represent upfront payments made for the land use rights. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of impairment losses (Note 2.10), if any.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Computer software

Acquired computer software license are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over periods ranging from 2 to 10 years.

(iii) Proprietary technologies

Proprietary technologies are initially recorded at cost and are amortized on the straight-line basis over their estimated useful lives of 10 years.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted cash" and "cash and cash equivalents", in the consolidated balance sheet (Notes 14 and 15).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(d) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalent.

2.15 Restricted cash

Restricted cash represents guaranteed deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

2.16 Ordinary shares

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Borrowings and borrowing costs (continued)

The liability components of the Series A convertible preferred shares and the Convertible bonds (Note 2.20) are classified as borrowings. The amortisations of these borrowings using effective interest method are recognized in the consolidated income statement as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Derivatives financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered and are subsequently re-measured at their fair value.

An embedded derivative is a component of a hybrid (consolidated) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the consolidated instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

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

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (consolidated) instrument is not measured at fair value with changes in fair value recognized in the profit or loss.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognized in the consolidated income statement.

2.20 Compound financial instruments

Compound financial instruments issued by the Company comprise the Series A convertible preferred shares (Note 18(d)) and the convertible bonds that can be converted to share capital at the option of the holder (Note 18(c)).

(a) The Series A convertible preferred shares

In the situation when the derivatives are not closely related to the debt host, these derivatives should be bifurcated and accounted for separately. The derivatives are recognized initially at fair value. The liability component is measured as the residual amount after separating the derivatives. Any directly attributable transaction costs are allocated to the liability components.

Subsequent to initial recognition, the embedded derivatives are carried at fair value. The liability component is measured at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Compound financial instruments (continued)

(b) The convertible bonds

In the situation when the convertible bonds are denominated in a currency other than the Company's functional currency, the instrument comprises a host debt instrument denominated in a foreign currency 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 a foreign currency. 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 convertion option is separated and classified as a derivative liability.

The embedded derivative is recognised initially at fair value. The host debt component at initial recognition is the difference between the consideration received and the fair value of the embedded derivative.

Subsequent to initial recognition, the embedded derivatives are carried at fair value. The liability component is measured at amortized cost using the effective interest method.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Employee benefits

(a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

(b) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by these housing funds.

(c) Pre-IPO share-based payment transaction

The Group established an equity-settled pre-IPO share option plan to recognize the contribution 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 the vesting period of each tranche. These share options are measured at fair value at grant day. In addition, in some circumstances, the directors and the employees may provide services in advance of the grant date and therefore, the grant date fair value is estimated for the purpose of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credit to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instrument to the employees of subsidiary undertaking 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 vesting period, as an increase to investment is subsidiary undertakings, with a corresponding credit to equity.

2.23 Provision and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Provision and contingent liabilities (continued)

A contingent liability is not recognized but is disclosed in the Group's financial statement. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

2.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of drill pipes, coating materials and related products

Revenue from the sales of drill pipes, coating materials and related products is recognized when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Rendering of coating and oilfield service

Coating services revenue is recognized in the accounting period in which the services are rendered.

Oilfield services may be provided on a day-rate basis or a fixed-price basis, with contract terms generally less than one year. The revenue of oilfield services is recognized under the percentage-of-completion method. Revenue from day-rate oilfield services contracts is generally recognized on the basis of labour hours delivered as a percentage of total hours to be delivered. Revenue from fixed-price oilfield services contracts is generally recognized based on the services performed to date as a percentage of the total service to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

(c) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(d) Dividend income

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

2.25 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight-line basis over the expected useful lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.27 Dividend distribution

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

2.28 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's major financial instruments include cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD"). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The Group does not hedge against any fluctuation in foreign currency.

As at 31 December 2012, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB5,953,000 (2011: RMB5,571,000) higher/lower as a result of foreign exchange gains/losses on translation of RMB and USD denominated cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings.

The Company's functional currency is RMB, so the bank balances and certain amount due from/to related parties denominated in USD are subject to translation at each balance sheet date. Fluctuation of exchange rate for RMB against USD could affect the Company's results of operations. The Company does not hedge against any fluctuation in foreign currency as well.

As at 31 December 2012, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the Company's net profit for the year would have been RMB71,505,000 (2011: RMB82,102,000) higher/lower as a result of foreign exchange gains/losses on translation of RMB and USD denominated cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

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

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 18.

As at 31 December 2012, if the Group's interest rate on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB62,000 (2011: RMB486,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

The Company's borrowings were obtained at fixed rates and expose the Company to fair value interest-rate risk as disclosed in Note 18.

(b) Credit risk

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

All cash and cash equivalents and restricted cash were deposited in the major financial institutions, which the directors of the Company believe are of high credit quality. The table below shows the bank deposit balances of the major counterparties as at 31 December 2012.

		As at 31 December	
Countparty	**Rating**	**2012 RMB'000**	2011 RMB'000
HSBC*	A-1+	**99,231**	355
Industrial & Commercial Bank of China*	A-1	**44,567**	18,251
Bank of Communication*	A-2	**43,171**	32,780
Bank of China*	A-1	**36,264**	48,310
Agricultural Bank of China*	A-1	**32,222**	11,567
China Construction Bank*	A-1	**30,582**	25,083
Maybank*	A-2	**28,399**	15,333
China Merchants Bank*	A-2	**27,439**	66,640
Emirates Islamic Bank*	A-1+	**19,913**	3,148
China Everbright Bank**	Baa3	**18,944**	–
Zenith Bank*	B	**17,127**	5,954
Standard Chartered Bank*	A-1	**11,849**	89,736
Citi Bank*	A-1	**11,554**	3,334

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

The Group established policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers and volume of sales. Please refer to Note 14 for ageing analysis. Management make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

The Company's maximum exposure to credit risk in relation to its financial assets is the carrying amounts of cash and cash equivalents, restrict cash and trade and other receivables. All cash and cash equivalents were deposited in the high credit quality financial institutions. A considerable portion of sales were made to the several major oil and gas operators of the PRC and their affiliates, which are state-owned entities with good credit reputation. The directors of the Company do not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions and issues of debt instruments or equity instruments.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Group	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 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**
As at 31 December 2011					
Borrowings and interest payable	611,362	6,618	269,360	–	887,340
Trade and other payables (except for advance from customers, staff salaries and welfare payables and other tax liabilities)	519,365	–	–	–	519,365
	1,130,727	6,618	269,360	–	1,406,705

Company	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2012					
Borrowings and interest payable	**9,926**	**269,160**	**–**	**–**	**279,086**
Trade and other payables	**6,145**	**–**	**–**	**–**	**6,145**
	16,071	**269,160**	**–**	**–**	**285,231**
As at 31 December 2011					
Borrowings and interest payable	6,618	6,618	269,360	–	282,596
Trade and other payables	3,837	–	–	–	3,837
	10,455	6,618	269,360	–	286,433

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debt. The Group aims to maintain the gearing ratio between 20% and 40%.

The gearing ratios as at 31 December 2012 and 2011 are as follows:

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000 (Restated)
Total borrowings *(Note 18)*	**939,232**	761,697
Less: Cash and cash equivalents *(Note 15)*	**(403,962)**	(325,500)
Net debt	**535,270**	436,197
Total equity	**2,305,434**	2,038,622
Total capital	**2,840,704**	2,474,819
Gearing ratio	**18.84%**	17.63%

The increase in gearing ratio during the year ended 31 December 2012 was mainly due to the increase in borrowings for operating needs. The Group expected the gearing ratio would be between 20% and 40% in future years.

3.3 Fair value estimation

The Group adopts the amendment to HKFRS 7 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The Group uses valuation techniques to determine the fair value of the derivative financial instruments that are not traded in an active market (Note 18(c)). The derivative financial instrument is included in level 3.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Except for the derivative financial instruments, the carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash and trade and other receivables (except for the prepayments) and financial liabilities including trade and other payables (except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax) and borrowings obtained at variable rates, approximate their fair value due to their short maturity. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

The fair value of non-current borrowings obtained at fixed rate is estimated by discounting the future cash flows at the current market rate available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current and deferred income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Useful lives of property, plant and equipment

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

(c) Impairment for receivables

The average credit period granted to customers is between 30 to 270 days. The trade and other receivables which are past due are analyzed in Note 14(b). In the opinion of the Company's directors, delay in receiving payments from the customers is mainly attributable to unfavorable market conditions of the oil and gas industry and delayed commencement of oil and gas exploratory or production activities due to various reasons beyond the Group's control under the background of global economic crisis. The Group accessed revenue by discounting the consideration receivable/received to present value and the difference between the carrying amount and the present value of the estimated future cash flows is not significant.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Impairment for receivables (continued)

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability and time value of trade and other receivables. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the past collection history of each counterparty, the current creditworthiness, and the current market condition. In the opinion of the Company's directors, the major customers of the Group are state-owned oil and gas companies, which account for over 50% of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and prevailing market conditions, the Group did not expect any losses from non-performance by these countparties. At each balance sheet date, the Group also assessed time value of trade and other receivables based on the current expectation of the collection period and the difference between the carrying amount and the present value of the estimated future cash flows is not significant. Accordingly, the Group did not set aside further impairment provision for receivables.

(d) Estimated write-downs of inventories

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

(e) Fair value of derivative financial instruments

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions exisiting at the end of each reporting period. The Group has used discounted cash flow analysis for the derivative financial instruments that are not traded in active market. The carrying amount of derivative financial instruments would be changed if the discount rates used in the discount cash flow analysis are changed.

(f) Impairment assessment of goodwill

The Group tested annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Notes 2.9 and 2.10. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations require the use of estimates. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount even if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

5 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 jointly controlled entities, which is consistent with that in the consolidated financial statements.

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

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

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

- Oil and gas equipment production, including the production of drilling pipes which are used in drilling exploration or production wells for oil and gas producers;

- Coating materials production and coating service provision, including the production of coating materials for anticorrosive 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) Revenues

The revenue of the Group for the years ended 31 December 2012 and 2011 are set out as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Drill pipes and related products	**1,010,868**	903,725
Coating materials and services	**635,865**	505,638
Oilfield services	**617,640**	424,156
	2,264,373	1,833,519

5 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2012 is as follows:

	For the year ended 31 December 2012			
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	1,140,830	765,932	617,640	2,524,402
Inter-segment sales	(129,962)	(130,067)	–	(260,029)
Revenue from external customers	1,010,868	635,865	617,640	2,264,373
Results				
Segment gross profit	388,634	262,346	244,300	895,280
Segment profit	159,817	162,915	154,794	477,526
Finance income				1,503
Finance costs				(73,227)
Share of profit of associates				1,716
Share of losses of jointly controlled entities				(945)
Profit before income tax				406,573
Other information				
Depreciation of property, plant and equipment	37,232	18,569	48,843	104,644
Amortization of lease prepayments	888	135	–	1,023
Amortization of intangible assets	264	223	–	487
Capital expenditure	22,408	79,838	264,707	366,953

	As at 31 December 2012			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	2,033,160	863,542	1,067,918	3,964,620
Investments in associates				53,683
Investments in jointly controlled entities				21,828
Total assets				4,040,131
Total liabilities	1,335,875	321,491	77,331	1,734,697

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2011 is as follows:

	For the year ended 31 December 2011			
Business segment	Drill pipes and related products RMB'000 (Restated)	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000 (Restated)
Revenue				
Segment revenue	972,856	567,497	424,156	1,964,509
Inter-segment sales	(69,131)	(61,859)	–	(130,990)
Revenue from external customers	903,725	505,638	424,156	1,833,519
Results				
Segment gross profit	376,121	206,198	169,003	751,322
Segment profit	210,993	123,835	86,504	421,332
Finance income				1,192
Finance costs				(46,748)
Share of losses of associates				(4,096)
Share of losses of jointly controlled entities				(6,754)
Profit before income tax				364,926
Other information				
Depreciation of property, plant and equipment	39,076	13,747	27,325	80,148
Amortization of lease prepayments	888	111	–	999
Amortization of intangible assets	238	218	–	456
Capital expenditure	108,516	24,572	226,006	359,094

	As at 31 December 2011			
Business segment	Drill pipes and related products RMB'000 (Restated)	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000 (Restated)
Segment assets	1,901,650	783,370	833,427	3,518,447
Investments in associates				53,539
Investments in jointly controlled entities				5,143
Total assets				3,577,129
Total liabilities	1,028,550	336,162	173,795	1,538,507

5 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, 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 pipe and related products. In Central Asia, Middle East, West Africa and South America, the Group provides drilling services and related engineering services. The following table shows the Group's total consolidated revenue by geographical market, regardless of where the goods were produced:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
The PRC	**1,273,120**	994,924
North and South America	**510,009**	373,397
Russia, Central Asia and East Europe	**219,822**	159,826
West Africa	**156,191**	42,638
Middle East	**92,346**	247,258
Others	**12,885**	15,476
	2,264,373	1,833,519

The following tables show the carrying amount of non-current assets, excluding investments in associates, investments in jointly controlled entities, deferred income tax assets and other long-term assets by geographical areas in which the assets are located:

	Carrying amount of segment assets As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
The PRC	**684,995**	733,964
North and South America	**404,174**	155,495
Middle East	**142,213**	236,871
West Africa	**132,516**	72,435
Russia, Central Asia and East Europe	**46,506**	53,334
	1,410,404	1,252,099

5 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

The following tables show the additions to non-current assets, excluding investments in associates, investments in jointly controlled entities, deferred income tax assets and other long-term assets by geographical areas in which the assets are located:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
North and South America	**288,614**	90,587
West Africa	**74,514**	76,804
The PRC	**2,523**	206,358
Russia, Central Asia and East Europe	**1,234**	11,802
Middle East	**68**	185,237
	366,953	570,788

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2011 (restated)							
Cost	199,938	548,430	17,087	17,544	1,062	105,908	889,969
Accumulated depreciation	(28,122)	(109,717)	(8,355)	(9,633)	(585)	–	(156,412)
Net book amount	171,816	438,713	8,732	7,911	477	105,908	733,557
Year ended 31 December 2011 (restated)							
Opening net book amount	171,816	438,713	8,732	7,911	477	105,908	733,557
Transferred from construction in progress	19,375	208,190	2,580	2,684	6,562	(239,391)	–
Additions	–	–	49	–	–	324,830	324,879
Acquisition of Hilong Petroleum Pipe Company* *(Note 32(b)(i))*	41,386	75,102	887	829	–	–	118,204
Acquisition of Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(Note 32(b)(ii))*	–	9,317	96	425	–	264	10,102
Acquisition of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.* *(Note 32(b)(iii))*	15,259	9,671	69	263	–	2,468	27,730
Disposals	(15,259)	(1,683)	(17)	(207)	–	–	(17,166)
Depreciation *(Note 21)*	(9,584)	(63,826)	(3,245)	(3,054)	(439)	–	(80,148)
Currency translation differences	–	(20,971)	(16)	(58)	–	–	(21,045)
Closing net book amount	222,993	654,513	9,135	8,793	6,600	194,079	1,096,113
At 31 December 2011 (restated)							
Cost	260,699	825,463	20,677	21,220	7,624	194,079	1,329,762
Accumulated depreciation	(37,706)	(170,950)	(11,542)	(12,427)	(1,024)	–	(233,649)
Net book amount	222,993	654,513	9,135	8,793	6,600	194,079	1,096,113
Year ended 31 December 2012							
Opening net book amount	**222,993**	**654,513**	**9,135**	**8,793**	**6,600**	**194,079**	**1,096,113**
Transferred from construction in progress	**36,123**	**329,019**	**11,719**	**–**	**8,581**	**(385,442)**	**–**
Additions	**–**	**–**	**11**	**3,262**	**–**	**361,496**	**364,769**
Disposals (a)	**(81)**	**(101,320)**	**(209)**	**(261)**	**–**	**–**	**(101,871)**
Depreciation *(Note 21)*	**(14,510)**	**(82,110)**	**(3,573)**	**(3,002)**	**(1,449)**	**–**	**(104,644)**
Currency translation differences	**(43)**	**(809)**	**79**	**2**	**148**	**–**	**(623)**
Closing net book amount	**244,482**	**799,293**	**17,162**	**8,794**	**13,880**	**170,133**	**1,253,744**
At 31 December 2012							
Cost	**296,698**	**1,043,587**	**31,327**	**23,442**	**16,132**	**170,133**	**1,581,319**
Accumulated depreciation	**(52,216)**	**(244,294)**	**(14,165)**	**(14,648)**	**(2,252)**	**–**	**(327,575)**
Net book amount	**244,482**	**799,293**	**17,162**	**8,794**	**13,880**	**170,133**	**1,253,744**

* Almansoori Hilong Petroleum Pipe Company's legal name was changed to Hilong Petroleum Pipe Company in March 2012. CNOOC Tube-Cote Tianjin Pipe Co., Ltd.'s legal name was changed to Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. in October 2011.

6 PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2012, the disposals primarily included the sales of one oil drilling rig and certain manufacturing equipment. In addition, certain parts used in the oil drilling rigs were lost in an accident during the transportation in mid 2012. Consequently, the carrying amount of these parts was fully written off. The net losses of RMB4,933,000 arising from the following transactions was recorded in "other losses – net".

As at 31 December 2012, certain buildings and facilities with a carrying amount of RMB147,793,000 (31 December 2011: RMB172,707,000) and certain machinery and equipment with a carrying amount of RMB144,668,000 (31 December 2011:nil) were pledged as collaterals for the Group's borrowings (Note 18(a)(i), (ii), (iv)).

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Cost of sales	**85,696**	69,152
Administrative expenses	**18,715**	10,749
Selling and marketing expenses	**233**	247
	104,644	80,148

7 LEASE PREPAYMENTS

Group

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analyzed as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Outside of Hong Kong:		
– Lease of 50 years	**85,566**	86,589

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening net book value	**86,589**	55,788
Additions	**–**	31,800
Amortization charges *(Note 21)*	**(1,023)**	(999)
Closing net book value	**85,566**	86,589

As at 31 December 2012, there was no land use right pledged as collaterals for the Group's borrowings.

As at 31 December 2011, certain land use right with a carrying amount of RMB38,859,000 was pledged as collaterals for the Group's borrowings (Note 18(a)(iv)).

7 LEASE PREPAYMENTS (continued)

The amortization of lease prepayments has been charged to administrative expenses in the consolidated income statement.

As at 31 December 2012, the land use right certificate of Shanghai Hilong Special Steel Pipe Co., Ltd. has not yet been obtained.

8 INTANGIBLE ASSETS

Group

	Goodwill (a) RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2011				
Cost	11,203	3,137	1,228	15,568
Accumulated amortization	–	(838)	(853)	(1,691)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	11,203	202	375	11,780
Year ended 31 December 2011				
Opening net book amount	11,203	202	375	11,780
Additions	–	–	2,415	2,415
Acquisition of Hilong Petroleum Pipe Company *(Note 32(b)(i))*	49,896	–	–	49,896
Acquisition of Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.. *(Note 32(b)(ii))*	3,928	–	–	3,928
Acquisition of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. *(Note 32(b)(iii))*	1,834	–	–	1,834
Amortization charge *(Note 21)*	–	(95)	(361)	(456)
Closing net book amount	66,861	107	2,429	69,397
At 31 December 2011				
Cost	**66,861**	**3,137**	**3,643**	**73,641**
Accumulated amortization	**–**	**(933)**	**(1,214)**	**(2,147)**
Impairment provision	**–**	**(2,097)**	**–**	**(2,097)**
Net book amount	**66,861**	**107**	**2,429**	**69,397**
Year ended 31 December 2012				
Opening net book amount	**66,861**	**107**	**2,429**	**69,397**
Additions	**–**	**1,724**	**460**	**2,184**
Amortization charge *(Note 21)*	**–**	**(103)**	**(384)**	**(487)**
Closing net book amount	**66,861**	**1,728**	**2,505**	**71,094**
At 31 December 2012				
Cost	**66,861**	**4,861**	**4,103**	**75,825**
Accumulated amortization	**–**	**(1,036)**	**(1,598)**	**(2,634)**
Impairment provision	**–**	**(2,097)**	**–**	**(2,097)**
Net book amount	**66,861**	**1,728**	**2,505**	**71,094**

8 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill

The goodwill addition arose from the acquisition of additional equity interest in following entities:

Entity name	Year	Amount (RMB'000)
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	2008	7,493
Shanghai Boteng Welding Consumable Co., Ltd.	2008	3,710
Hilong Petroleum Pipe Company	2011	49,896
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	2011	3,928
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	2011	1,834
		66,861

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to business segments. A segment level summary of goodwill is presented below:

	As at 31 December	
	2012 **RMB'000**	2011 RMB'000
Drill pipes and related products	**49,896**	49,896
Coating materials and services	**16,965**	16,965
	66,861	66,861

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expects cash flow beyond the five-year period will be similar to that of the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using zero growth rates.

The key assumptions used for value-in-use calculations in 2012 are as follows:

	Drill pipes and related products	Coating materials and services
Gross margin	38%	41%
Discount rate	16%	16%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2012.

8 INTANGIBLE ASSETS (continued)

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of sales	**2**	2
Administrative expenses	**485**	454
	487	456

9 INVESTMENTS IN ASSOCIATES

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Beginning of year	**53,539**	78,811
Share of results of associates	**1,716**	(4,096)
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. *(Note 32(b)(iii))*	**–**	(11,528)
Disposal of 15% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. *(Note 25(a))*	**–**	(4,839)
Dividends declared	**(1,572)**	(4,809)
End of year	**53,683**	53,539

The particulars of the associates of the Group, all of which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principle activities
			2012	2011	
Nantong Hilong Steel Pipe Co., Ltd.	30 April 2007, Jiangsu, the PRC	RMB105,880,000	**41%**	41%	Manufacturing and distribution of special steel
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	12 February 2007, Shandong, the PRC	RMB20,000,000	**30%**	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	22 November 2010, Liaoning, the PRC	RMB15,000,000	**30%**	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	20 November 2004, Shanxi, the PRC	RMB18,000,000	**22.95%**	22.95%	Coating service provision

9 INVESTMENTS IN ASSOCIATES (continued)

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

Name	Assets	Liabilities	Revenues	Profit/ (Losses)	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012	**133,993**	**80,310**	**133,520**	**1,716**	**53,683**
Year ended 31 December 2011	130,689	77,150	107,920	(4,096)	53,539

There were no contingent liabilities relating to the Group's interests in its associates.

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Beginning of year	**5,143**	6,279
Investments in the jointly controlled entity	**17,547**	16,317
Share of results of the jointly controlled entity	**(945)**	(6,754)
Realization of unrealized profit	**83**	1,235
Currency translation differences	**–**	1,116
Transfer from investment in a jointly controlled entity to investment in a subsidiary upon acquisition of additional equity interest in Hilong Petroleum Pipe Company *(Note 32(b)(i))*	**–**	(1,620)
Transfer from investment in a jointly controlled entity to investment in a subsidiary upon acquisition of additional equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(Note 32(b)(ii))*	**–**	(11,430)
End of year	**21,828**	5,143

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

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principal activities
			2012	2011	
Hilong Temerso Co., Ltd.	23 August 2011, Russia	RBL1,000,000	**56%**	56%	Coating service provision

Name	Assets	Liabilities	Revenues	Losses	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012	**27,480**	**5,652**	**4,197**	**(945)**	**21,828**
Year ended 31 December 2011	22,567	17,424	53,571	(6,754)	5,143

There was no contingent liability relating to the Group's interests in its jointly controlled entity.

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**31,208**	29,026
– to be recovered after more than 12 months	**62,296**	31,806
	93,504	60,832
Deferred income tax liabilities:		
– to be recovered within 12 months	**–**	–
– to be recovered after more than 12 months	**(95,872)**	(86,951)
	(95,872)	(86,951)

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

Deferred income tax assets	**Tax losses and tax credits carried forward**	**Impairment provision on assets**	**Accruals**	**Unrealized profit (a)**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	4,848	6,492	1,137	24,941	1,951	39,369
Credit/(charged) to the consolidated income statement	4,465	2,565	14	18,671	(1,357)	24,358
At 31 December 2011	9,313	9,057	1,151	43,612	594	63,727
Credit/(charged) to the consolidated income statement	3,467	(1,040)	1,044	29,795	(594)	32,672
At 31 December 2012	12,780	8,017	2,195	73,407	–	96,399

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(a) Deferred income tax assets of unrealized profit are mainly attributable to the unrealized profit on intra-group transfer of property, plant and equipment and inventories.

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize cumulative deferred income tax assets of RMB13,533,000 as at 31 December 2012 (31 December 2011: RMB11,406,000, restated) in respect of the accumulated tax losses of certain subsidiaries. Carrying forward of these tax losses will expire, if unused, in the years ending 31 December 2013 to 2032.

Deferred income tax liabilities	**Withholding taxation of the unremitted earnings of certain subsidiaries (Note 27)**	**Gain on remeasuring existing equity interest in certain associate and jointly controlled entities on acquisition**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2011	(77,061)	(1,818)	(78,879)
Charged to the consolidated income statement	(9,890)	(1,077)	(10,967)
At 31 December 2011	(86,951)	(2,895)	(89,846)
Charged to the consolidated income statement	(8,921)	–	(8,921)
At 31 December 2012	(95,872)	(2,895)	(98,767)

12 INVESTMENT IN SUBSIDIARIES

Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investment, at cost:		
Unlisted shares	**–**	–
Capital contribution relating to share-based payment	**20,325**	11,214
	20,325	11,214

(a) Detail of the subsidiaries of the Group as at 31 December 2012 and 2011 are set out in Note 35.

(b) The grant by the Company of options over its equity instruments to the employees of subsidiaries undertakings in the Group is treated as a capital contribution (Note 17(3)).

13 INVENTORIES

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Raw materials	**166,233**	186,417
Work in progress	**32,988**	29,628
Finished goods	**373,278**	281,212
Packing materials	**497**	532
Low value consumables	**13,348**	11,721
	586,344	509,510

The cost of inventories recognized as cost of sales amounted to approximately RMB940,119,000 for the year ended 31 December 2012 (2011: RMB815,665,000, restated).

During the year ended 31 December 2012, the Group reversed inventory provision write-down brought forward from prior years of RMB9,522,000 (2011: RMB10,220,000) because some obsolete raw materials were subsequently used in the production. The amount reversed has been included in 'cost of sales' in the consolidated income statement (Note 21). As at 31 December 2012, the inventory provision was RMB17,142,000 (31 December 2011: RMB26,664,000).

14 TRADE AND OTHER RECEIVABLES

Group

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Bills receivable *(a)*	**72,799**	31,878
Trade receivables *(b)*		
– Due from related parties *(Note 34(c))*	**26,282**	59,350
– Due from third parties	**1,041,354**	968,580
Less: provision for impairment of receivables *(d)*	**(23,383)**	(11,033)
Trade receivables – net	**1,044,253**	1,016,897
Other receivables *(c)*	**119,665**	99,863
Prepayments	**148,508**	164,514
Trade and other receivables – net	**1,385,225**	1,313,152

As at 31 December 2012 and 2011, the fair value of the trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

14 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2012, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
– RMB	**1,018,336**	1,043,325
– USD	**244,241**	225,989
– CAD	**44,321**	11,903
– KZT	**30,283**	10,083
– NGN	**24,487**	14,750
– COP	**13,208**	–
– AED	**10,339**	3,021
– HKD	**10**	4,081
	1,385,225	1,313,152

(a) The ageing of bills receivable is within 180 days, which is within the credit term.

(b) The ageing analysis of trade receivables, before provision for impairment, as at 31 December 2012 and 2011 was as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**748,401**	602,677
– Over 90 days and within 180 days	**112,495**	213,645
– Over 180 days and within 360 days	**81,418**	109,046
– Over 360 days and within 720 days	**82,096**	75,107
– Over 720 days	**43,226**	27,455
	1,067,636	1,027,930

The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables.

As at 31 December 2012, trade receivables of RMB23,383,000 (31 December 2011: RMB11,033,000) were impaired and fully provided for impairment losses. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at 31 December 2012, no trade receivables were pledged as collaterals for the Group's borrowing.

As at 31 December 2011, trade receivables of RMB10,694,000 were pledged as collaterals for the Group's borrowing (Note 18(a)(v)).

14 TRADE AND OTHER RECEIVABLES (continued)

(b) The ageing analysis of trade receivables, before provision for impairment, as at 31 December 2012 and 2011 was as follows: (continued)

As at 31 December 2012, trade receivables of RMB295,852,000 (31 December 2011: RMB414,220,000) were past due but not impaired. These mainly relate to the customers that are state-owned companies which have good trading records with the Group. Based on the past experiences, the directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
– Within 90 days	**112,495**	213,645
– Over 90 days and within 180 days	**69,695**	74,423
– Over 180 days and within 360 days	**51,440**	76,456
– Over 360 days and within 720 days	**40,679**	39,897
– Over 720 days	**21,543**	9,799
	295,852	414,220

(c) Details of other receivables are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Due from related parties *(Note 34(c))*	**65,860**	55,740
Staff advance	**14,452**	14,221
Value added tax refund	**2,291**	11,074
Due from non-controlling interests	**2,750**	6,000
Others	**34,312**	12,828
	119,665	99,863

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At beginning of the year	**(11,033)**	(11,033)
Provision for impairment *(Note 21)*	**(12,350)**	–
At the end of the year	**(23,383)**	(11,033)

14 TRADE AND OTHER RECEIVABLES (continued)

Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Other receivables due from related parties *(Note 34(c))*	**947,098**	967,933
Dividends receivable *(Note 34(c))*	**377,397**	217,397
Prepayments	**353**	2,282
Trade and other receivables – net	**1,324,848**	1,187,612

As at 31 December 2012 and 2011, the fair value of the trade and other receivables of the Company, except for the prepayments which are not financial assets, approximated their carrying amounts.

The ageing analysis of trade and other receivables as at 31 December 2012 and 2011 was as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade and other receivables, gross		
– Within 360 days	**1,107,451**	935,537
– Over 360 days and within 720 days	**217,397**	252,075
	1,324,848	1,187,612

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
– USD	**720,609**	820,947
– RMB	**543,359**	217,397
– HKD	**60,880**	149,268
	1,324,848	1,187,612

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Cash at bank and in hand *(a)*	**486,927**	382,301
Less: Restricted cash *(b)*	**(82,965)**	(56,801)
Cash and cash equivalents	**403,962**	325,500

(a) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates.

(b) Restricted cash represents guaranteed deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreement (Note 18(a)(i), (iii)).

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Cash at bank and in hand are denominated in:		
– RMB	**305,096**	236,497
– USD	**149,821**	61,418
– CAD	**8,576**	3,732
– NGN	**7,955**	3,594
– HKD	**5,062**	65,090
– AED	**4,475**	3,256
– COP	**3,035**	–
– KZT	**2,837**	8,674
– EURO	**70**	40
	486,927	382,301
Restricted cash is denominated in:		
– RMB	**59,951**	54,227
– USD	**20,852**	353
– AED	**1,940**	–
– KZT	**222**	2,221
	82,965	56,801

The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Company

As at 31 December 2012, cash and cash equivalents of the Company are not restricted and are denominated in HKD of RMB3,819,000 and USD of RMB585,000 (31 December 2011: denominated in HKD of RMB77,418,000 and USD of RMB3,911,000).

16 ORDINARY SHARES

Group and Company

	Note	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary share (In RMB)
Authorised:				
Ordinary shares of HK$0.1 each authorised upon incorporation on 15 October 2008	*(a)*	3,800,000	380,000	334,324
Re-designation and reclassification of 3,800,000 existing shares into 3,753,300 ordinary shares of HK$0.1 each and 46,700 Series A preferred shares of HK$0.1 each on 30 November 2010	*(b)*	(46,700)	(4,670)	(4,084)
Ordinary shares of HK$0.1 each authorised on 28 February 2011	*(c)*	29,996,246,700	2,999,624,670	2,531,083,297
As at 31 December 2011		30,000,000,000	3,000,000,000	2,531,413,537
Changes in the year		–	–	–
As at 31 December 2012		30,000,000,000	3,000,000,000	2,531,413,537
Issued:				
Ordinary shares of HK$0.1 each issued and allotted upon incorporation on 15 October 2008	*(a)*	1	0.1	0.09
Ordinary share issued on 30 November 2010 and paid up by 7 March 2011	*(b)*	953,299	95,330	811,000
Global initial public offering of HK$0.1 each on 21 April 2011	*(e)*	400,000,000	40,000,000	33,576,000
Series A preferred shares of HK$0.1 each converted into ordinary shares on 21 April 2011	*(f)*	46,700	4,670	4,000
Capitalization issue of HK$0.1 each on 21 April 2011	*(g)*	1,199,000,000	119,900,000	99,924,000
Share repurchase during the year ended 31 December 2011	*(h)*	(4,784,000)	(478,400)	(388,000)
As at 31 December 2011		1,595,216,000	159,521,600	133,927,000
Share repurchase during the year ended 31 December 2012	*(i)*	(3,876,000)	(387,600)	(314,000)
As at 31 December 2012		1,591,340,000	159,134,000	133,613,000

16 ORDINARY SHARES (continued)

(a) The Company was incorporated in the Cayman Islands on 15 October 2008 with an authorised share capital of HK$380,000 divided into 3,800,000 shares of a nominal value of HK$0.1 each and issued 1 share to Hilong Group Limited.

(b) On 30 November 2010, pursuant to the written resolutions of all the shareholders of the Company, the board approved the re-designation and reclassification of 3,800,000 existing ordinary shares into 3,753,300 ordinary shares of HK0.1 each and 46,700 Series A preferred shares of HK0.1 each. On the same day, the Company issued 953,299 shares with a nominal value of HK$0.1 each to Hilong Group Limited, including 952,972 shares paid on 30 November 2010 and 327 shares paid on 7 March 2011, and issued 46,700 Series A preferred shares with a nominal value of HK$0.1 each to UMW China Ventures (L) Ltd. (Note 18(d)).

(c) On 28 February 2011, pursuant to the written resolutions of all the shareholders of the Company, the authorised share capital of the Company was diminished by the cancellation of all authorized and issued Series A preferred shares of HK$0.1 each of the Company and following such diminution, the authorised share capital of the Company was increased by creating such number of ordinary shares of HK$0.1 each of the Company necessary to increase the authorised share capital to HK$3,000,000,000 divided into 30,000,000,000 shares of HK$0.1 each.

(d) In March 2011, three family trusts (the "Mr. Zhang's Family Trusts") were established by Mr. Zhang Jun (as settlor) to hold indirect interests in the shares for the benefit of his family members, with Standard Chartered Trust (Cayman) Limited acting as the trustee. Each of Mr. Zhang's Family Trusts holds 100% of the equity interest in the respective BVI entities, which in turn holds equity interest in the Company of 2%, 2% and 5.33%, respectively.

(e) On 21 April 2011, the Company completed its global initial public offering of shares by issuing 400,000,000 shares of HK$0.1 each at a price of HK$2.6 per share. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on the same date. The listing proceeds to the Company, net of listing expenses, were HK$973,887,000 (equivalent to RMB817,481,000), resulting in the increase in issued share capital of the Company by RMB33,576,000 and the share premium by RMB783,905,000.

(f) On 21 April 2011, the date of the Company's global initial public offering, all the obligations to deliver cash or another financial assets were discharged (Note 18(d)), so the Company classified the liability component of Series A preferred shares to equity, resulting in the increase in issued share capital of the Company by RMB4,000 and the share premium by RMB170,128,000.

(g) On 21 April 2011, pursuant to the written resolutions of all the shareholders of the Company passed on 28 February 2011, the issue of 1,199,000,000 shares, including 1,143,006,700 shares issued to Hilong Group Limited and Mr. Zhang's Family Trusts and 55,993,300 shares issued to UMW China Ventures (L) Ltd., was made upon capitalization of an amount of HK$119,900,000 (equivalent to RMB99,924,000) standing to the credit of the share premium account of the Company, which resulted in the increase in issued share capital of the Company by RMB99,924,000 and the decrease in share premium by RMB99,924,000.

(h) During the year ended 31 December 2011, 4,784,000 shares with a total nominal value of HK$478,400 (equivalent to RMB388,000) were repurchased at a total consideration of HK$6,725,000 (equivalent to RMB5,452,000). Details refer to Note 17(4).

(i) On 9 January 2012, 3,876,000 shares with a total 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). Details refer to Note 17(4).

17 OTHER RESERVES

Group

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Statutory reserve *(1)*	**88,464**	83,787
Merger reserve *(2)*	**(141,929)**	(141,549)
Share options reserve *(3)*	**20,325**	11,214
Share premium *(Note 16(e), (f), (g)), (4)*	**845,130**	849,045
Capital redemption reserve *(4)*	**702**	388
Capital reserve	**(38,653)**	(38,653)
	774,039	764,232

(1) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the articles of association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

For the years ended 31 December 2012, RMB4,677,000 (2011: RMB7,392,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

(2) Merger reserve

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Beginning of year	**(141,549)**	(151,787)
Contribution to subsidiaries by their then equity owners *(a)*	**–**	19,767
Consideration paid to the then equity owners for acquisition or disposal of subsidiaries under common control *(b)*	**(380)**	(9,529)
End of year	**(141,929)**	(141,549)

(a) Contribution to subsidiaries by their then equity owners

Contribution to subsidiaries by their then equity owners during the year ended 31 December 2011 represented cash injection by Hailong International into Hilong USA, LLC. of RMB14,492,000 and cash injection by Hailong International into Hilong Drill Pipe (Wuxi) Co., Ltd. of RMB5,275,000, which were reflected as a deemed capital injection to the Group by the controlling shareholder.

17 OTHER RESERVES (continued)

(2) Merger reserve (continued)

(b) Consideration paid to the then equity owners for acquisition or disposal of subsidiaries under common control

Consideration paid to the then equity owners for acquisition of a subsidiary under common control in 2012 represented the acquisition by Hilong Energy Limited of 100% equity interest in Hilong USA, LLC. at a consideration of RMB380,000 (Note 32(a)).

Consideration paid to the then equity owners for acquisition of a subsidiary under common control in 2011 represented the acquisition by Hilong Energy Limited of 40% equity interest in Hilong Drill Pipe (Wuxi) Co., Ltd. at a consideration of RMB9,529,000.

(3) 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 a pre-IPO share option scheme. The movements in the number of share options outstanding and their related exercise prices are as follows:

	Exercise price (per share in HKD)	Exercise price (equivalent to RMB)	Outstanding shares Year ended 31 December 2012	2011
At 1 January	2.60	2.11	**45,519,000**	–
Granted	2.60	2.11	**–**	46,322,000
Forfeited	2.60	2.11	**(519,000)**	(803,000)
At 31 December	2.60	2.11	**45,000,000**	45,519,000

As at 31 December 2012, no share option was exercised (Expiry date: 21 April 2021).

The share options outstanding as at 31 December 2012 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Exercise price (equivalent to RMB)	Outstanding shares
21 April 2012	2.60	2.11	9,000,000
21 April 2013	2.60	2.11	9,000,000
21 April 2014	2.60	2.11	9,000,000
21 April 2015	2.60	2.11	9,000,000
21 April 2016	2.60	2.11	9,000,000
			45,000,000

17 OTHER RESERVES (continued)

(3) Share options reserve (continued)

The fair value of the pre-IPO share options at the grant 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	
		Equivalent to
Vesting date	**In HKD**	**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

Share option expenses have been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of sales	**1,570**	1,822
Administrative expenses	**6,250**	7,861
Selling and marketing expenses	**1,291**	1,531
	9,111	11,214

(4) Capital redemption reserve

According to a resolution passed in the 2011 annual general meeting, the directors of the Company are authorised to approve the repurchase of the Company's share through the Stock Exchange of Hong Kong Limited or any other stock exchange on which the securities of the Company may be listed, with an aggregate number not exceeding 160,000,000 shares.

During the year ended 31 December 2012, the Company repurchased 3,876,000 ordinary shares (2011: 4,784,000 ordinary shares) at an aggregated consideration of HK$5,217,000 (equivalent to RMB4,229,000) (2011: HK$6,725,000 (equivalent to RMB5,452,000)). 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 (2011: RMB388,000) was credited to capital redemption reserve and paid out from the Company's retained earnings, and the relevant premium of RMB3,915,000 (2011: RMB5,064,000) was paid out from the Company's share premium.

17 OTHER RESERVES (continued)

Company

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Share premium *(Note 16(e), (f), (g)), (4)*	**845,130**	849,045
Capital redemption reserve *(4)*	**702**	388
Share options reserve *(3)*	**20,325**	11,214
	866,157	860,647

The Movement in other reserves during the year ended 31 December 2012 is as follows:

	Note	**Share Premium** RMB'000	**Capital redemption reserve** RMB'000	**Share options reserve** RMB'000	**Total** RMB'000
As at 31 December 2011		849,045	388	11,214	860,647
Share repurchase	*17(4)*				
– premium on repurchase of shares		(3,915)	–	–	(3,915)
– transfer		–	314	–	314
Pre-IPO share option plan	*17(3)*	–	–	9,111	9,111
As at 31 December 2012		845,130	702	20,325	866,157

18 BORROWINGS

Group

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Non-current		
Bank borrowing – secured *(a)*	**88,068**	–
Bank borrowing – unsecured	**–**	1,200
Convertible bonds *(c)*	**204,903**	178,741
Less: Current portion of non-current borrowings	**–**	(1,200)
	292,971	178,741
Current		
Bank borrowings – secured *(a)*	**184,290**	267,306
Bank borrowings – unsecured	**461,971**	306,574
Related party borrowing *(b)*	**–**	7,876
Current portion of non-current borrowing	**–**	1,200
	646,261	582,956
	939,232	761,697

18 BORROWINGS (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Bank borrowings:		
– RMB	**597,863**	506,184
– HKD	**204,903**	178,741
– USD	**136,466**	7,876
– AED	**–**	68,896
	939,232	761,697

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

	6 months or less	**Between 6 and 12 months**	**Between 1 and 5 years**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2012	**734,329**	**–**	**204,903**	**939,232**
As at 31 December 2011	582,956	–	178,741	761,697

The maturity of borrowings is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
On demand or within 1 year	**646,261**	582,956
Between 1 and 2 years	**270,954**	–
Between 2 and 5 years	**22,017**	178,741
	939,232	761,697

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Borrowings – current		
– RMB	**6.84%**	6.88%
– USD	**3.09%**	10%
– AED	**–**	6%
Borrowings – non-current		
– RMB	**–**	5.31%
– HKD	**17.19%**	17.19%
– USD	**5.09%**	n.a.

18 BORROWINGS (continued)

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

The carrying amounts and fair value of the non-current borrowings are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Carrying amount		
Convertible bonds	**204,903**	178,741
Bank borrowings	**88,068**	–
	292,971	178,741

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Fair value		
Convertible bonds	**223,314**	178,741
Bank borrowings	**88,068**	–
	311,382	178,741

The fair value of convertible bonds was arrived at based on cash flows discounted using the discount rate by reference to similar public companies. The non-current bank borrowings were obtained at variable interest rates and the fair values approximated their carrying amount.

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
RMB facilities	**347,840**	64,000
USD facilities	**41,484**	–
	389,324	64,000

18 BORROWINGS (continued)

(a) Bank borrowings – secured

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Secured by property, plant and equipment and bank deposits *(i)*	**122,010**	–
Secured by property, plant and equipment *(ii)*	**125,000**	–
Secured by bank deposits *(iii)*	**25,348**	14,983
Secured by property, plant and equipment and land use rights *(iv)*	**–**	226,323
Secured by accounts receivable *(v)*	**–**	26,000
	272,358	267,306

i. The bank borrowings of RMB122,010,000 were secured by certain machinery and equipment (Note 6) and bank deposits (Note 15(b)) of the Group, with a carrying amount of RMB144,668,000 and RMB30,714,000, respectively, as at 31 December 2012 (31 December 2011:nil);

ii. The bank borrowings of RMB125,000,000 were secured by certain buildings and facilities (Note 6), with a carrying amount of RMB147,793,000, as at 31 December 2012 (31 December 2011: nil);

iii. The bank borrowings of RMB25,348,000 were secured by certain bank deposits (Note 15(b)) of the Group, with a carrying amount of RMB5,070,000, as at 31 December 2012 (31 December 2011: the bank borrowings of RMB14,983,000 were secured by certain bank deposits (Note 15(b)) of the Group, with a carrying amount of RMB8,000,000);

iv. The bank borrowings of RMB226,323,000 were secured by certain buildings and facilities (Note 6) and land use rights (Note 7) of the Group, with a carrying amount of RMB172,707,000 and RMB38,859,000, respectively, as at 31 December 2011;

v. The bank borrowings of RMB26,000,000 were secured by certain trade receivables with the carrying amount of RMB10,694,000 (Note 14) as at 31 December 2011.

(b) Related party borrowing

Related party borrowing due from Hailong International, which was unsecured and interest-free, was recorded using the contractual undiscounted cash flow method and was recognized initially at its fair value. It was subsequent measured at amortized cost using effective interest method (Note 26). The Group repaid the related party borrowing in 2012.

18 BORROWINGS (continued)

(c) Convertible bonds

The Company issued convertible bonds to CITIC Capital China Access Fund Limited ("CITIC") at a total nominal value of HK$233,250,000 (equivalent to RMB189,274,000) on 9 December 2011, carrying 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 ordinary 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 maturity. The values of the host liability component and embedded derivative of the conversion option were determined at the issuance date (Note 2.20).

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 non-current borrowings.

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

	The liability component (Borrowings)	**Derivative financial instruments**	**Total**
	RMB'000	RMB'000	RMB'000
As at 9 December 2011 (Issuance date)	176,464	12,810	189,274
Amortization using the effective interest method *(Note 26)*	2,277	–	2,277
As at 31 December 2011	178,741	12,810	191,551
Amortization using the effective interest method *(Note 26)*	29,829	–	29,829
Interest settlement	(3,734)	–	(3,734)
Changes in fair value *(Note 25)*	–	20,712	20,712
Exchange difference *(Note 25)*	67	4	71
As at 31 December 2012	204,903	33,526	238,429

Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Non-Current		
Convertible bonds *(c)*	**204,903**	178,741

(d) Series A convertible preferred shares

In August 2010, pursuant to an investment agreement, UMW China Ventures (L) Ltd. ("UMW CV"), a non-controlling shareholder, agreed to subscribe to 46,700 Series A convertible preferred shares issued by the Company at a price of RMB3,595 per share with total amount of RMB167,890,000. The Series A convertible preferred shares were subsequently converted into the ordinary shares of the Company after the Company's initial public offering.

19 DEFERRED REVENUE

Group

Deferred revenue represents government grants relating to certain research projects and production lines. Government grants relating to research projects are recognized in the consolidated income statement over the financial period necessary to match them with the costs that they are intended to compensate; government grants relating to production line are deferred and recognized in the consolidated income statement on a straight-line basis over the expected useful lives of the related production lines.

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Current – relating to certain research projects	**400**	400
Non-current – relating to certain production lines	**20,989**	20,250
	21,389	20,650

20 TRADE AND OTHER PAYABLES

Group

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Bills payable	**130,176**	103,195
Trade payables:		
– Due to related parties *(Note 34(c))*	**–**	10,135
– Due to third parties	**266,461**	312,406
Other payables:		
– Due to related parties *(Note 34(c))*	**–**	33,900
– Due to third parties	**42,316**	44,331
Staff salaries and welfare payables	**34,097**	32,328
Advance from customers	**82,757**	43,030
Interest payables	**1,456**	1,764
Accrued taxes other than income tax	**9,537**	28,373
Dividends payable	**10,933**	13,078
Other liabilities	**5,042**	2,320
	582,775	624,860

As at 31 December 2012 and 2011, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers which are not financial liabilities, approximated their carrying amounts due to their short maturities.

20 TRADE AND OTHER PAYABLES (continued)

As at 31 December 2012 and 2011, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000 (Restated)
– RMB	**558,898**	529,942
– USD	**9,480**	79,545
– AED	**5,375**	7,821
– NGN	**3,772**	588
– KZT	**2,979**	972
– CAD	**2,229**	1,817
– HKD	**42**	4,175
	582,775	624,860

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade payables, gross		
– Within 90 days	**136,215**	220,953
– Over 90 days and within 180 days	**36,435**	20,940
– Over 180 days and within 360 days	**85,149**	19,739
– Over 360 days and within 720 days	**5,361**	13,526
– Over 720 days	**3,301**	47,383
	266,461	322,541

Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Other payables due to related parties (Note 34(c))	**6,102**	–
Other payables due to third parties	**43**	3,837
	6,145	3,837

As at 31 December 2012 and 2011, all trade and other payables of the Company were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

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

As at 31 December 2012 and 2011, all trade and other payables of the Company were denominated in USD (31 December 2011: denominated in USD).

21 EXPENSES BY NATURE

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Changes in inventories of finished goods and work in progress *(Note 13)*	**(95,426)**	(82,452)
Raw materials and consumable used *(Note 13)*	**1,035,545**	898,117
Employee benefit expenses *(Note 22)*	**301,412**	190,577
Depreciation *(Note 6)*	**104,644**	80,148
Utilities and electricity	**90,406**	70,183
Transportation expenses	**77,882**	77,365
Entertainment expenses	**47,827**	32,799
Research and development expense	**36,520**	35,618
Operating lease payments	**31,386**	16,227
Sales commission and staff's travelling and lodging expense	**30,616**	15,569
Travelling and communication expenses	**27,634**	21,768
Marketing and promotion expenses	**24,598**	20,866
Taxes and levis	**22,483**	15,259
Consulting expenses	**22,074**	19,975
Provision for impairment provision of receivables *(Note 14)*	**12,350**	–
Auditor's remuneration		
– Audit services	**3,000**	3,000
– Non-audit services	**491**	389
Amortization of lease prepayments *(Note 7)*	**1,023**	999
Amortization of intangible assets *(Note 8)*	**487**	456
IPO expense	**–**	23,122
Reversal of provision for inventory write-down *(Note 13)*	**(9,522)**	(10,220)
Miscellaneous	**6,550**	7,246
Total cost of sales, selling and marketing and administrative expenses	**1,771,980**	1,437,011

22 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Wages and salaries	**256,963**	155,290
Social security costs	**35,338**	24,073
Share options *(Note 17(3))*	**9,111**	11,214
	301,412	190,577

23 DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

Group

(a) Directors' and chief executives' emoluments

The remuneration of every director and the chief executive for the years ended 31 December 2012 and 2011 are set out as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Directors		
Directors' fees	**291**	300
Salaries	**4,620**	4,581
Discretionary bonus and allowances	**2,212**	2,172
Social security costs	**288**	255
Share options *(Note 17(3))*	**1,295**	1,553
	8,706	8,861

There was no chief executive who was not director.

No individual has waived or agreed to waive any emoluments.

The remuneration of every director and chief executive for the year ended 31 December 2012 is set out as follows:

	Fees RMB'000	Salaries RMB'000	Discretionary bonus and allowances RMB'000	Social security costs RMB'000	Share options RMB'000	Total RMB'000
Year ended 31 December 2012						
Directors						
Zhang Jun (張軍)	–	960	535	57	123	1,675
Zhang Shunman (張姝嫚)	–	850	519	30	123	1,522
Ji Min (紀敏)	–	840	301	67	165	1,373
Yuan Pengbin (袁鵬斌)	–	840	382	67	442	1,731
Wang Tao (汪濤)	–	840	475	67	442	1,824
Datuk Syed Hisham Bin Syed Wazir	–	–	–	–	–	–
Li Huaiqi (李懷奇)	–	290	–	–	–	290
Liu Qihua (劉奇華)	97	–	–	–	–	97
Wang Tao (王濤)	97	–	–	–	–	97
Lee Siang Chin	97	–	–	–	–	97
Liu Haisheng (劉海勝)*	–	–	–	–	–	–

* Mr Liu Haisheng was appointed as an Independent Non-executive Director of the Company since December 2012.

23 DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS (continued)

(a) Directors' and chief executives' emoluments (continued)

The remuneration of every director and the chief executive for the year ended 31 December 2011 is set out as follows:

	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Social security costs RMB'000	Share options RMB'000	Total RMB'000
Year ended 31 December 2011						
Directors						
Zhang Jun (張軍)	–	1,176	674	55	148	2,053
Zhang Shunman (張姝嫚)	–	726	–	16	148	890
Ji Min (紀敏)	–	999	319	60	197	1,575
Yuan Pengbin (袁鵬斌)	–	840	597	60	530	2,027
Wang Tao (汪濤)	–	840	582	64	530	2,016
Datuk Syed Hisham Bin Syed Wazir	–	–	–	–	–	–
Li Huaiqi (李懷奇)	–	–	–	–	–	–
Liu Qihua (劉奇華)	100	–	–	–	–	100
Wang Tao (王濤)	100	–	–	–	–	100
Lee Siang Chin	100	–	–	–	–	100

(b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 include three (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2011: two) individuals during the year are as follows:

	Year ended 31 December **2012** RMB'000	2011 RMB'000
Salaries	**1,782**	2,042
Discretionary bonus and allowances	**1,255**	2,233
Social security costs	**90**	69
Share options *(Note 17(3))*	**884**	1,060
	4,011	5,404

The emoluments fell within the following bands:

	Year ended 31 December **2012**	2011
Emolument bands:		
Nil to HK$2,500,000 (equivalent to RMB2,027,000)	**1**	1
HK$2,500,001 to HK$4,500,000 (equivalent to RMB2,027,000 to RMB3,649,000)	**1**	1
	2	2

No director or these highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

24 OTHER INCOME

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Gain on remeasuring existing interest in Hilong Petroleum Pipe Company *(Note 32(b)(i))*	**–**	29,763
Gain on remeasuring existing interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(Note 32(b)(ii))*	**–**	3,570
Gain on remeasuring existing interest in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. *(Note 32(b)(iii))*	**–**	734
	–	34,067

25 OTHER LOSSES – NET

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Government grants	**13,159**	12,800
Loss on disposal of property, plant and equipment – net	**(4,933)**	(562)
Donation expenses	**(81)**	(15)
Exchange losses	**(2,622)**	(19,435)
Changes in fair value of the embedded derivative of the convertible bonds *(Note 18(c))*	**(20,716)**	–
Changes in fair value of Series A convertible preferred shares *(Note 18(d))*	**–**	133
Loss on disposal of equity interests in an associate *(a) (Note 9)*	**–**	(1,839)
Others	**326**	(325)
	(14,867)	(9,243)

(a) The Group disposed of a 15% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. to Shengli Oil Field Bohai Pipe Co., Ltd at a consideration of RMB3,000,000. Details of net assets disposed are as follows:

	RMB'000
Consideration of the disposal	3,000
The carrying amount of the 15% equity interest	(4,839)
Disposal loss	(1,839)

The consideration was received in 2012.

26 FINANCE COSTS – NET

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Finance income:		
– Interest income derived from bank deposits	**1,503**	1,192
Finance cost:		
– Interest expense on bank borrowings	**(43,398)**	(37,688)
– Amortization of the liability component of Series A convertible preferred shares using effective interest method *(Note 18(d))*	**–**	(6,545)
– Amortization of the liability component of convertible bonds *(Note 18(c))*	**(29,829)**	(2,277)
– Amortization of an interest-free related party borrowing using effective interest method *(Note 18(b))*	**–**	(238)
	(73,227)	(46,748)
Finance costs – net	**(71,724)**	(45,556)

27 INCOME TAX EXPENSE

Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current income tax	**68,897**	58,425
Deferred income tax *(Note 11)*	**(23,751)**	(13,391)
Income tax expense	**45,146**	45,034

27 INCOME TAX EXPENSE (continued)

The difference between the actual income tax charge in the consolidated income statement and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Profit before tax	**406,573**	364,926
Tax calculated at statutory tax rates applicable to each group entity	**43,374**	43,824
Tax effect of:		
Expenses not deductible for tax purpose	**4,820**	5,001
Tax effect of tax exemption and reduced tax rate under tax holiday *(a)*	**(4)**	(6,004)
Additional deduction for research and development expense *(b)*	**(1,555)**	(1,311)
Utilisation of tax credits	**(3,616)**	–
Utilisation of previously unrecognized tax losses	**(524)**	–
Tax losses of subsidiaries not recognized	**2,651**	3,524
Tax charge	**45,146**	45,034

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

Enterprises incorporated in British Virgin Islands, Dubai, Abu Dhabi and Labuan (Malaysia) are not subject to any income tax according to relevant rules and regulations.

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the year ended 31 December 2012 and 2011.

Enterprises incorporated in other places are subject to income tax rates of 16.5% to 33% prevailing in the places in which the Group operated for the year ended 31 December 2012 (31 December 2011: 16.5% to 30%).

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 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 are qualified for new/high-tech technology enterprises status and enjoyed preferential income tax rate of 15% for three years.

27 INCOME TAX EXPENSE (continued)

Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 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 Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of their earnings generated from 1 January 2008. Deferred income tax liabilities of RMB8,921,000 (2011: RMB9,890,000) (Note 11) have been recognized in 2012 since the management plans to distribute the pertinent earnings generated in those subsidiaries established in Mainland China to its overseas immediate holding company. Deferred income tax liabilities of RMB29,642,000 (2011: RMB16,260,000) have not been recognized for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries in the year ended 31 December 2012. Such amounts are permanently reinvested. The permanently reinvested unremitted earnings totalled RMB296,420,000 as at 31 December 2012 (31 December 2011: RMB162,600,000).

(a) Tax effect of tax exemption and reduced tax rate under tax holiday

The effective income tax rate for the companies with tax preferential treatment are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Hilong Group of Companies Ltd.	**25%**	12.5%
Shanghai Hilong Drill Pipe Co., Ltd. *	**15%**	12.5%
Hilong Drill Pipe (Wuxi) Co., Ltd. *	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. *	**15%**	15%
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.*	**15%**	15%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	15%

* Shanghai Hilong Drill Pipe Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2012 to 2014.

* Hilong Drill Pipe (Wuxi) Co., Ltd is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2011 to 2013.

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2011 to 2013.

* Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2012 to 2014.

* Shanghai Hilong Shine New Material Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax of 15% for the three years from 2011 to 2013.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2012 and 2011.

(b) Additional deduction for research and development expense

Pursuant to the CIT Law, an additional tax deduction relating to research and development expenses incurred is allowed, after the approval by the tax authorities is obtained. This additional allowed deduction is calculated at 50% of the actual research and development expenses.

28 EARNINGS PER SHARE

Group

Basic

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

	Year ended 31 December	
	2012	2011 (Restated)
Profit attributable to equity owners of the Company (RMB'000)	**345,001**	302,020
Weighted average number of ordinary shares in issue (thousand)	**1,591,425**	1,462,341
Basic earnings per share (RMB)	**0.2168**	0.2065

Diluted

Diluted earnings per share is computed by dividing the net profit for the year, by the weighted-average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including share options and convertible bonds.

As at 31 December 2012, there were 45,000,000 share options outstanding (31 December 2011: 45,519,000 share options outstanding) and convertible bonds which can be converted into 97,187,500 ordinary shares (31 December 2011: 97,187,500 ordinary shares) that could potentially have a dilutive impact in the future but were anti-dilutive in the year ended 31 December 2012.

29 DIVIDENDS

Group and Company

Pursuant to a resolution of the Board of Directors on 22 March 2013, a final dividend of HK$0.0760 (equivalent to approximately RMB0.0616) per share for the year ended 31 December 2012 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 27 May 2013 to the shareholders of the Company whose names appear on the register of members of the Company as at 20 May 2013. The total amount is estimated to be HK$123,904,000 (equivalent to approximately RMB100,462,000). These financial statements do not reflect this dividend payable.

The final dividend in respect of 2011 of HK$0.0690 (equivalent to approximately RMB0.0559) per share, amounting to a total dividend of HK$109,802,000 (equivalent to approximately 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 year ended 31 December 2012 and paid out.

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

30 CASH GENERATED FROM OPERATIONS

Group

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Profit for the year before income tax	**406,573**	364,926
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**104,644**	80,148
– Amortization of lease prepayments *(Note 7)*	**1,023**	999
– Amortization of intangible assets *(Note 8)*	**487**	456
– Reversal of provision for inventory write-down *(Note 13)*	**(9,522)**	(10,220)
– Provision for impairment of receivables *(Note 14)*	**12,350**	–
– Share of results of associates *(Note 9)*	**(1,716)**	4,096
– Share of results of jointly controlled entity *(Note 10)*	**945**	6,754
– Finance costs *(Note 26)*	**73,227**	46,748
– Loss on disposal of property, plant and equipment *(Note 25)*	**4,933**	562
– Loss on the changes in fair value of the embedded derivative of the convertible bonds *(Note 25)*	**20,716**	–
– Gain on the changes in fair value of Series A convertible preferred shares *(Note 25)*	**–**	(133)
– Share option expenses *(Note 22)*	**9,111**	11,214
– Other income *(Note 24)*	**–**	(34,067)
– Loss on disposal of equity interests in an associate *(Note 25)*	**–**	1,839
	622,771	473,322
Changes in working capital:		
– Increase in trade and other receivables	**(89,267)**	(105,763)
– Increase in inventories	**(67,312)**	(44,081)
– Decrease/(increase) in restricted cash	**1,620**	(1,231)
– Increase in deferred revenue	**739**	6,595
– Decrease in trade and other payables	**(31,453)**	(192,703)
– Cash generated from operations	**437,098**	136,139

30 CASH GENERATED FROM OPERATIONS (continued)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Net book amount *(Note 6)*	**101,871**	17,166
Loss on disposal of property, plant and equipment *(Note 25)*	**(4,933)**	(562)
Proceeds from disposal of property, plant and equipment	**96,938**	16,604
Collected	**96,938**	15,604
Not yet collected	**–**	1,000
	96,938	16,604

(c) Non-cash transactions

There were no significant non-cash transactions in 2012.

The principal non-cash transaction in 2011 was the conversion of the Series A convertible preferred shares to equity as described in Note 18(d).

31 COMMITMENTS

Group

(a) Capital commitments

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Property, plant and equipment	**87,211**	45,748

(b) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
No later than 1 year	**6,210**	9,121
Later than 1 year and no later than 3 year	**5,191**	5,428
Later than 3 years	**14,549**	9,059
	25,950	23,608

32 BUSINESS COMBINATION

Group

(a) Business combination 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 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 comparative amounts in the consolidated financial statements were restated as well.

The consideration of USD60,000 (equivalent to approximately RMB380,000) transferred for the acquisition were debited to other reserve (Note 17(2)) as a deemed distribution to the Controlling Shareholder.

(b) Other acquisitions of subsidiaries

There were no other acquisitions of subsidiaries during the year ended 31 December 2012. During the year ended 31 December 2011, the Group had the following acquisitions:

(i) Acquisition of Hilong Petroleum Pipe Company

The Group originally held a 49% equity interest in Hilong Petroleum Pipe Company through Hilong Investment Ltd., and the Group's effective equity interest in Hilong Petroleum Pipe Company was 49% as well. In December 2011, Links Commercial Enterprise LLC, who acted as the nominee of Hilong Investment Ltd., acquired an additional 51% equity interest in Hilong Petroleum Pipe Company from Almansoori Specified Engering LLC, the selling shareholder and an independent third party company incorporated in the United Arab Emirates. After the acquisition, the Group's effective equity interest in Hilong Petroleum Pipe Company increased from 49% to 100%.

As a result of the acquisition, the Group is expected to increase its presence in the United Arab Emirates market. It also expects to reduce costs through economies of scale. The goodwill of RMB49,896,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and Hilong Petroleum Pipe Company. None of the goodwill recognised is expected to be deductible for income tax purposes.

32 BUSINESS COMBINATION (continued)

(b) Other acquisitions of subsidiaries (continued)

(i) Acquisition of Hilong Petroleum Pipe Company (continued)

The following table summarises the consideration paid for Hilong Petroleum Pipe Company, the fair value of assets acquired and liabilities assumed at the acquisition date.

	RMB'000
Consideration:	
Total cash consideration	35,279
Total consideration transferred	
Fair value of equity interest held before the business combination	31,383
Total consideration	66,662
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 6)*	118,204
Inventories	74,655
Trade and other receivables	3,023
Cash and cash equivalents	3,179
Trade and other payables	(113,399)
Borrowings	(68,896)
Total identifiable net assets	16,766
Goodwill *(Note 8(a))*	49,896
	66,662

Acquisition-related costs of RMB1,419,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2011.

The Group recognised a gain of RMB29,763,000 as a result of measuring at fair value its 49% equity interest in Hilong Petroleum Pipe Company held before the business combination. The gain is included in other income in the Group's consolidated income statement for the year ended 31 December 2011 (Note 24).

(ii) Acquisition of Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

The Group originally held 50% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. through Hilong Group of Companies Ltd., and the Group's effective equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. was 50%. In July 2011, Hilong Group of Companies Ltd., acquired an additional 5% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. from Panjin Liaohe Oilfield Pipe Manufacturing Co., Ltd., an independent third party company incorporated in the PRC. After the acquisition, the Group's effective equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. increased from 50% to 55%.

32 BUSINESS COMBINATION (continued)

(b) Other acquisitions of subsidiaries (continued)

(ii) Acquisition of Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. (continued)

The following table summarises the consideration paid for Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd., the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB'000
Consideration:	
Total cash consideration	1,500
Total consideration transferred	
Fair value of equity interest held before the business combination	15,000
Total consideration	16,500
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 6)*	10,102
Inventories	5,128
Trade and other receivables	51,451
Cash and cash equivalents	136
Trade and other payables	(37,459)
Borrowings	(6,500)
Total identifiable net assets	22,858
Non-controlling interest	(10,286)
Goodwill *(Note 8(a))*	3,928
	16,500

The Group recognised a gain of RMB3,570,000 as a result of measuring at fair value its 50% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. held before the business combination. The gain was included in other income in the Group's consolidated income statement for the year ended 31 December 2011 (Note 24).

(iii) Acquisition of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.

The Group originally held 40% equity interest in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. through Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., and the Group's effective equity interest in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. was 20.40%. In August 2011, Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. acquired an additional 60% equity interest in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. from CNOOC Energy Technology & Services Limited, an independent third party company incorporated in the PRC. After the acquisition, the Group's effective equity interest in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. increased from 20.40% to 51%.

32 BUSINESS COMBINATION (continued)

(b) Other acquisitions of subsidiaries (continued)

(iii) Acquisition of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (continued)

The following table summarises the consideration paid for Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd., the fair value of assets acquired and liabilities assumed at the acquisition date.

	RMB'000
Consideration:	
Total cash consideration	18,392
Total consideration transferred	
Fair value of equity interest held before the business combination	12,262
Total consideration	30,654
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 6)*	27,730
Inventories	2,889
Trade and other receivables	9,401
Cash and cash equivalents	1,645
Trade and other payables	(12,845)
Total identifiable net assets	28,820
Goodwill *(Note 8(a))*	1,834
	30,654

The Group recognised a gain of RMB734,000 as a result of measuring at fair value its 20.40% equity interest in Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. held before the business combination. The gain was included in other income in the Group's consolidated income statement for the year ended 31 December 2011 (Note 24).

33 RELATED PARTY TRANSACTIONS

Group and Company

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

The ultimate parent company of the Group is Hilong Group Limited (Note 1), which owns 56.69% (31 December 2011: 71.7%) equity interest in the Company as at 31 December 2012. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2012 and 2011, and balances arising from related party transactions as at 31 December 2012 and 2011.

33 RELATED PARTY TRANSACTIONS (continued)

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hailong International
Hilong Group Ltd.
Huashi Hailong
Beijing Huashi Hilong Oil Investments Co., Ltd
Jiangyan Hilong Wire Welding Co., Ltd.
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.
Hilong Oil Pipe Co., Ltd.

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
Tianjin Tube-Cote Petroleum 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 Petroleum Pipe Company *
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *
Hilong Temerso Co., Ltd.

* The Group acquired additional equity interests in these entities and obtained control over these entities in 2011. The related party transactions with these entities refer to the transactions before the acquisition. Details see Note 32.

(vi) Controlled by key management personnel

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

33 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statement, during the years ended 31 December 2012 and 2011, the Group had the following significant transactions with related parties:

	The Group Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**43,851**	33,882
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**15,365**	440
Hilong Temerso Co., Ltd	**9,223**	14,370
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**7,097**	7,723
Jiangyan Hilong Wire Welding Co., Ltd.	**1,008**	–
Hilong Petroleum Pipe Company	**–**	95,467
Nantong Hilong Steel Pipe Co., Ltd.	**–**	14,330
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**–**	3,732
	76,544	169,944
Purchase of materials:		
Nantong Hilong Steel Pipe Co., Ltd.	**44,579**	35,118
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	1,096
	44,579	36,214
Consulting fee:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**2,400**	2,600
Shanghai Xinhao Technology Development Co., Ltd.	**1,200**	1,900
	3,600	4,500
Rental expenses:		
Beijing Huashi Hilong Oil Investments Co., Ltd.	**5,128**	–
Hilong Oil Pipe Co., Ltd.	**2,178**	1,921
	7,306	1,921

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of the business and in accordance with the term of the underlying agreements.

33 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	The Group As at 31 December 2012 RMB'000	The Group As at 31 December 2011 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**19,206**	10,482
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**3,433**	2,519
Hilong Temerso Co., Ltd.	**2,602**	14,944
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**849**	425
Jiangyan Hilong Wire Welding Co., Ltd.	**192**	5,275
Nantong Hilong Steel Pipe Co., Ltd.	**–**	25,521
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**–**	184
	26,282	59,350
Other receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**20,686**	19,132
Nantong Hilong Steel Pipe Co., Ltd.	**20,502**	–
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**14,503**	20,398
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**5,573**	1,500
Jiangyan Hilong Wire Welding Co., Ltd.	**1,853**	–
Hilong Temerso Co., Ltd.	**1,647**	1,867
Huashi Hailong	**1,096**	2,293
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**–**	10,550
	65,860	55,740
Prepayments to:		
Nantong Hilong Steel Pipe Co., Ltd.	**28,676**	–
Shanghai Yuanzhi Metallurgical Co., Ltd.	**200**	3,700
	28,876	3,700

	The Company As at 31 December 2012 RMB'000	The Company As at 31 December 2011 RMB'000
Other receivables due from:		
Hilong Energy Limited	**563,300**	803,390
Hilong Oil Service Ltd.	**219,050**	–
Hilong Investment Ltd.	**159,573**	164,543
Hilong Petroleum Technology & Engineering Co., Ltd.	**3,457**	–
Hilong Petroleum Pipe Company	**1,718**	–
	947,098	967,933

33 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	The Company As at 31 December	
	2012	2011
	RMB'000	RMB'000
Dividends receivable due from:		
Hilong Energy Holding Limited	**377,397**	217,397

	The Group As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade payables due to:		
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	5,368
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.	**–**	4,767
	–	10,135
Other payables due to:		
Nantong Hilong Steel Pipe Co., Ltd.	**–**	33,900
Dividends payable due to:		
Hailong International	**9,470**	9,470
Loan borrowing from:		
Hailong International *(Note 18(b))*	**–**	7,876

	The Company As at 31 December	
	2012	2011
	RMB'000	RMB'000
Other payables due to:		
Shanghai Hilong Drill Pipe Co., Ltd.	**5,912**	–
Hilong Group of Companies Ltd.	**190**	–
	6,102	–

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand.

33 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries	**10,100**	9,061
Discretionary bonus and allowances	**4,560**	6,260
Social Security costs	**556**	437
Share options *(Note 17(3))*	**2,636**	2,630
	17,852	18,388

34 TRANSACTIONS WITH NON-CONTROLLING INTEREST – ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

There were no transactions with non-controlling interest during the year ended 31 December 2012. The transactions with non-controlling interest during the year ended 31 December 2011 were as follows:

(a) Acquisition of additional interest in Shanghai Hilong Shine New Material Co., Ltd.

On 2 March 2011, the Company acquired an additional 28% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd. for a consideration of RMB42,983,000. The carrying amount of the non-controlling interests in Shanghai Hilong Shine New Material Co., Ltd. on the date of acquisition was RMB34,716,000. The Group recognized a decrease in non-controlling interests of RMB34,716,000 and a decrease in equity attributable to owners of the parent of RMB8,177,000. The effect of changes in the ownership interest of Shanghai Hilong Shine New Material Co., Ltd. on the equity attributable to owners of the Group is summarized as follows,

	RMB'000
Carrying amount of non-controlling interests acquired	34,716
Consideration paid to non-controlling interests	(42,893)
Excess of consideration paid recognised in capital reserve within equity	(8,177)

(b) Acquisition of additional interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.

On 2 March 2011, the Company acquired an additional 40% of the equity interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. for a consideration of RMB36,310,000. The carrying amount of the non-controlling interests in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. on the date of acquisition was RMB29,210,000. The Group recognized a decrease in non-controlling interests of RMB29,210,000 and a decrease in equity attributable to owners of the parent of RMB7,100,000. The effect of changes in the ownership interest of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. on the equity attributable to owners of the Group is summarized as follows,

	RMB'000
Carrying amount of non-controlling interests acquired	29,210
Consideration paid to non-controlling interests	(36,310)
Excess of consideration paid recognised in capital reserve within equity	(7,100)

34 TRANSACTIONS WITH NON-CONTROLLING INTEREST – ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES (continued)

(c) Acquisition of additional interest in Shanghai Boteng Welding Consumable Co., Ltd.

On 2 March 2011, the Company acquired an additional 46% of the equity interest in Shanghai Boteng Welding Consumable Co., Ltd. for a consideration of RMB29,225,000. The carrying amount of the non-controlling interests in Shanghai Boteng Welding Consumable Co., Ltd. on the date of acquisition was RMB5,752,000. The Group recognized a decrease in non-controlling interests of RMB5,752,000 and a decrease in equity attributable to owners of the parent of RMB23,473,000. The effect of changes in the ownership interest of Shanghai Boteng Welding Consumable Co., Ltd. on the equity attributable to owners of the Group is summarized as follows,

	RMB'000
Carrying amount of non-controlling interests acquired	5,752
Consideration paid to non-controlling interests	(29,225)
Excess of consideration paid recognised in capital reserve within equity	(23,473)

(d) Effects of transaction with non-controlling interests on the equity attributable to owners of the Company

	RMB'000 (Restated)
Total comprehensive income for the year attributable to the equity owners of the Company	279,830
Changes in equity attributable to the shareholders of the Company arising from:	
– Acquisition of additional interests in Shanghai Hilong Shine New Material Co., Ltd.	(8,177)
– Acquisition of additional interests in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	(7,100)
– Acquisition of additional interest in Shanghai Boteng Welding Consumable Co., Ltd.	(23,473)
	(38,750)
Net effect for transactions with non-controlling interests on changes in equity attributable to equity owners of the Company	241,080

35 SUBSIDIARIES

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2012	2011	Direct/ Indirect	Principle activities
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 8 March 2002	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, 22 October 2003	USD4,000,000	**38.09%**	38.09%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, 12 November 2003	RMB15,000,000	**100%**	100%	Indirect	Manufacturing and distribution of coating materials
Hilong Group of Companies Ltd.	PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 9 November 2005	RMB50,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, 29 December 2005	RMB3,000,000	**100%**	100%	Indirect	Manufacturing and distribution of hardbanding materials
Hilong Investment Ltd.	Malaysia, 13 September 2006	USD100	**100%**	100%	Indirect	Investment holding
Shanghai Hilong Tubular Goods Research Institute	PRC, 27 October 2006	RMB5,000,000	**100%**	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Hilong Petroleum Pipe Company LLC	Abu Dhabi 6 November 2006	AED1,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, 17 November 2006	RMB50,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment

35 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2012	2011	Direct/ Indirect	Principle activities
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, 22 November 2006	RMB30,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006	KZT110,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007	CAD100	**100%**	100%	Indirect	Oil and gas equipment trading
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, 1 January 2008	RMB40,000,000	**51%**	51%	Indirect	Manufacturing and distribution of oil and gas equipment
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, 7 January 2008	RMB20,000,000	**45.4%**	45.4%	Indirect	Coating service provision
Hilong Energy Limited	Hong Kong, 8 July 2008	HK$1	**100%**	100%	Indirect	Investment holding
Hilong Oil Service and Engineering Co., Ltd.	PRC, 16 July 2008	RMB80,000,000	**95%**	95%	Indirect	Oilfield service provision
Hilong USA LLC.	USA, 9 November 2008	USD1,030,000	**100%**	100%	Indirect	Oil and gas equipment trading
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, 5 January 2009	RMB120,000,000	**99%**	99%	Indirect	Manufacturing and distribution of oil and gas equipment
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	PRC, 13 January 2009	RMB10,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD10,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, 18 March 2009	USD400	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment

35 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2012	2011	Direct/ Indirect	Principle activities
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, 9 June 2009	RMB6,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 18 September 2009	RMB20,000,000	**51%**	51%	Indirect	Coating service provision
Hilong Drilling & Supply FZE	Dubai, 15 December 2009	AED1,000,000	**100%**	100%	Indirect	Oilfield service provision
PT Hilong Oil Service & Engineering Indonesia	The Republic of Indonesia, 6 May 2010	USD150,000	**–***	95%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 29 September 2010	RMB15,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service & Sucursal Colombia Ltd.	Columbia, 26 April 2012	COP90,734,500	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	PRC, 1 November 2012	RMB10,000,000	**100%**	100%	Indirect	Research and development on the technology of coating services

* This company was deregistered in 2012.

36 EVENTS AFTER THE BALANCE SHEET DATE

(a) Pursuant to a resolution of the Board of Directors on 22 March 2013, a dividend of HK$0.0760 (equivalent to approximately RMB0.0616) per share was proposed. Details refer to Note 29.

(b) In February 2013, after the communication with the Group, the holder of the convertible bonds elected to exercise its conversion rights, by converting a principal of HK$93,300,000 to the ordinary share at the conversion price of HK$2.4 per share. Consequently, the number of ordinary share of the company increase by 38,875,000. The remaining principal of convertible bonds is HK$139,950,000.

(c) On 22 March 2013, pursuant to the Share Transfer Agreement between Hilong Group of Companies and Zhongxing Energy Ltd., Hilong Group of Companies purchased 44% equity interest in Nantong Hilong Steel Pipe Co., Ltd. at an aggregate consideration of RMB35,200,000. After the acquisition, the Group's effective equity interest in Nantong Hilong Steel Pipe Co., Ltd. will increase from 41% to 85%.

37 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 22 March 2013.

FINANCIAL SUMMARY

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

Consolidated Results

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
Revenue	**2,264,373**	1,833,519	1,379,482	1,009,451	1,656,502
Gross profit	**895,280**	751,322	563,794	377,033	747,814
Gross profit margin	**39.5%**	41.0%	40.9%	37.4%	45.1%
Operating profit	**477,526**	421,332	326,149	157,293	557,299
Operating profit margin	**21.1%**	23.0%	23.6%	15.6%	33.6%
Profit for the year	**361,427**	319,892	235,601	99,764	477,163
Profit attributable to:					
Equity owners of the Company	**345,001**	302,020	184,064	50,375	419,021
Non-controlling interests	**16,426**	17,872	51,537	49,389	58,142

Consolidated assets, equity and liabilities

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
ASSETS					
Non-current assets	**1,581,635**	1,372,166	923,985	770,227	629,226
Current assets	**2,458,496**	2,204,963	1,861,035	1,406,661	1,376,679
Total assets	**4,040,131**	3,577,129	2,785,020	2,176,888	2,005,905
EQUITY AND LIABILITIES					
Total equity	**2,305,434**	2,038,622	890,161	991,720	910,566
Non-current liabilities	**443,358**	298,752	91,911	73,069	66,069
Current liabilities	**1,291,339**	1,239,755	1,802,948	1,112,099	1,029,270
Total liabilities	**1,734,697**	1,538,507	1,894,859	1,185,168	1,095,339
Total equity and liabilities	**4,040,131**	3,577,129	2,785,020	2,176,888	2,005,905

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA, LLC. from Hailong International at a purchase price of USD60,000 (equivalent to approximately RMB380,000). Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, our controlling shareholder, and the control is not transitory. Accordingly, the transaction has been accounted for on the principle 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 their existing book values and the consolidated income statements included the results of Hilong USA, LLC. from the earliest date presented. The financial summary was restated as well.

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