海隆控股有限公司*
Hilong Holding Limited

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

INTERIM REPORT 2012

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Zhang Shuman (張姝嫚) *(Chief Strategy Officer)*
Datuk Syed Hisham Bin Syed Wazir
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

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

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PRINCIPAL BANKERS

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Bank of China, Baoshan Branch
China Merchants Bank, Baoshan Branch

STOCK CODE

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FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2012		2011 (Restated)	
	RMB'000	**%**	RMB'000	%
Drill pipes and related products				
– Drill pipes	**381,327**	**41.0**	276,732	36.3
– Drill pipe components	**5,536**	**0.6**	54,693	7.2
– Hardbanding	**7,752**	**0.8**	7,464	1.0
– Equipment	**7,115**	**0.8**	485	0.1
– Others	**11,212**	**1.2**	22,534	3.0
Subtotal	**412,942**	**44.4**	361,908	47.5
Coating materials and services				
– Oil and gas line pipe coating	**181,807**	**19.6**	161,821	21.2
– Oil Country Tubular Goods ("**OCTG**") coating	**91,396**	**9.8**	63,839	8.4
Subtotal	**273,203**	**29.4**	225,660	29.6
Oilfield services	**243,540**	**26.2**	174,352	22.9
Total revenue	**929,685**	**100.0**	761,920	100.0

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

	Six months ended 30 June			
	2012		2011 (Restated)	
	RMB'000	**%**	RMB'000	%
The People's Republic of China (the "**PRC**")	**515,558**	**55.4**	390,009	51.2
North and South America	**198,505**	**21.4**	155,585	20.4
Russia, Central Asia and East Europe	**101,734**	**10.9**	58,990	7.8
West Africa	**65,026**	**7.0**	18,501	2.4
Middle East	**48,862**	**5.3**	138,835	18.2
	929,685	**100.0**	761,920	100.0

Revenue increased by RMB167.8 million, or 22.0%, from RMB761.9 million for the six months ended 30 June 2011 to RMB929.7 million for the six months ended 30 June 2012 (the "**Interim Period**"). Such increase primarily reflected an increase in revenue from oilfield services segment and, to a lesser extent, from drill pipes and related products segment and the coating materials and services segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment increased by RMB51.0 million, or 14.1%, from RMB361.9 million for the six months ended 30 June 2011 to RMB412.9 million for the Interim Period. 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 revenue analysis of the drill pipe sales for the periods indicated:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Sales of drill pipes		
– International market		
– volume (tonnes)	**7,415**	5,841
– unit price (RMB/tonne)	**22,076**	25,825
Subtotal (RMB'000)	**163,695**	150,842
– Domestic market		
– volume (tonnes)	**9,330**	4,629
– unit price (RMB/tonne)	**23,326**	27,196
Subtotal (RMB'000)	**217,632**	125,890
Total (RMB'000)	**381,327**	276,732

Revenue from sales of drill pipes in the international market increased by RMB12.9 million, or 8.6%, from RMB150.8 million for the six months ended 30 June 2011 to RMB163.7 million for the Interim Period. The increase primarily reflected a 26.9% increase in the volume of drill pipes sold from 5,841 tonnes for the six months ended 30 June 2011 to 7,415 tonnes for the Interim Period, partially offset by a 14.5% decrease in the average selling price in the international market from RMB25,825 per tonne for the six months ended 30 June 2011 to RMB22,076 per tonne for the Interim Period. The increase in the sales volume primarily reflected the Group's continuous effort in 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.

Revenue from sales of drill pipes in the PRC market increased by RMB91.7 million, or 72.8%, from RMB125.9 million for the six months ended 30 June 2011 to RMB217.6 million for the Interim Period. The increase primarily reflected a 101.6% increase in volume of drill pipes sold in the PRC market from 4,629 tonnes for the six months ended 30 June 2011 to 9,330 tonnes for the Interim Period, partially offset by a 14.2% decrease in average selling price sold in the PRC market from RMB27,196 per tonne for the six months ended 30 June 2011 to RMB23,326 per tonne for the Interim Period. The increase in the sales volume primarily reflected (i) in the Interim Period, the Group sold more than 3,000 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, and (ii) an increased level of demand on the Group's drill pipes and capital spending by oil and gas companies in the PRC market, especially China National Petroleum Corporation ("**CNPC**") and China Petrochemical Corporation ("**Sinopec Group**"). The decrease in average selling price primarily reflected (i) the aforementioned over 3,000 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 Group decreased in 2012 compared to that in 2011.

Revenue from sales of drill pipe components decreased by RMB49.2 million, from RMB54.7 million for the six months ended 30 June 2011 to RMB5.5 million for the Interim Period. Sales of drill pipe components for the six months ended 30 June 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 RMB47.5 million, or 21.0%, from RMB225.7 million for the six months ended 30 June 2011 to RMB273.2 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating and OCTG coating services, partially offset by a decrease in the revenue derived from oil and gas line pipe coating materials.

The increase in revenue from OCTG coating services primarily reflected an increase in the Group's manufacturing capacity and utilization rate in providing OCTG coating services coupled with a higher demand for its services in the Interim Period compared to that in the six months ended 30 June 2011.

The increase in revenue from oil and gas line pipe coating services primarily reflected (i) an increase in manufacturing capacity which enabled the Group to provide coating services for up to 18-meter-length oil and gas line pipe since the end of 2011, and (ii) revenue derived from Corrosion Resistance Alloy Lined Pipe services, which was newly launched in the Interim Period.

The decrease in revenue from oil and gas line pipe coating materials reflected a 14.4% decrease in volume from 7,183 tonnes for the six months ended 30 June 2011 to 6,149 tonnes for the Interim Period, partially offset by a 1.0% increase in average selling price from RMB10,436 per tonne for the six months ended 30 June 2011 to RMB10,542 per tonne for the Interim Period. The decrease in the sales volume primarily reflected the Group's strengthening control over customer evaluation to lower credit risk and to improve profitability.

Oilfield services. Revenue from the oilfield services segment increased by RMB69.1 million from RMB174.4 million for the six months ended 30 June 2011 to RMB243.5 million for the Interim Period. Such increase was attributable to the oilfield service projects in West Africa from which the Group started to generate revenue since May 2011 and April 2012 respectively, and in Ecuador from which the Group started to generate revenue during the last quarter of 2011, partially offset by the decrease in the revenue derived from the sale of tubing and casing products purchased from third parties to oilfield services clients.

Cost of Sales

Cost of sales increased by RMB132.7 million, or 31.2%, from RMB425.4 million for the six months ended 30 June 2011 to RMB558.1 million for the Interim Period. 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 and other related costs associated with the expansion of oilfield services segment in the Interim Period compared with that in the six months ended 30 June 2011.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB35.0 million, or 10.4%, from RMB336.5 million for the six months ended 30 June 2011 to RMB371.5 million for the Interim Period. Gross profit margin decreased from 44.2% for the six months ended 30 June 2011 to 40.0% for the Interim Period. The decrease in gross profit margin primarily reflected the decrease in gross profit margin from drill pipes and related products segment and oilfield services segment.

Gross profit margin of drill pipes and related products segment decreased from 43.0% for the six months ended 30 June 2011 to 37.3% for the Interim Period, reflecting the decreased average selling price in both the PRC and the international market, partially offset by the decreased unit cost due to the decrease in steel price and better cost control.

Gross profit margin of oilfield services segment decreased from 45.3% for the six months ended 30 June 2011 to 39.9% for the Interim Period. The decrease primarily reflected that (i) gross profit margin of oilfield services decreased as normal operations of the drilling rig in the Middle East was temporarily suspended while relocation costs and inspection costs were incurred during the Interim Period, and (ii) gross profit margin of sale of tubing and casing products decreased due to lower average selling price in the Interim Period.

Selling and Marketing Expenses

Selling and marketing expenses decreased from 5.7% of revenue for the six months ended 30 June 2011 to 4.8% of revenue for the Interim Period. Such decrease, as a percentage of revenue, primarily reflected better control over freight cost during the Interim Period.

Administrative Expenses

Administrative expenses increased by RMB18.8 million, or 17.7%, from RMB106.3 million for the six months ended 30 June 2011 to RMB125.1 million for the Interim Period. Such increase primarily reflected (i) administrative expenses of RMB11.0 million incurred during the Interim Period in three subsidiaries acquired by the Group in the second half of 2011, (ii) an increase in depreciation charges, staff costs and travel expenses incurred in connection with the expansion of the Group's oilfield services segment, (iii) an increase in recurring professional services fees and headquarter office expenses after the global offering (the "**Global Offering**") and listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), and (iv) the Group provided RMB3.7 million specific provision for impairment of certain receivables in the Interim Period, partially offset by a decrease in expenses incurred in 2011 in connection with the Global Offering.

Finance Costs

Finance costs increased by RMB6.8 million, or 23.7%, from RMB28.7 million for the six months ended 30 June 2011 to RMB35.5 million for the Interim Period. Such increase primarily reflected an accretion of interest of RMB15.0 million in relation to the liability component of convertible bonds, partially offset by a RMB6.5 million decrease in interest in relation to the liability component of Series A preferred shares using effective interest method. Such Series A preferred shares were fully converted into ordinary shares upon listing of the Company's shares on the main board of the Stock Exchange.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB153.1 million for the six months ended 30 June 2011 to RMB159.4 million for the Interim Period.

Income Tax Expense

Income tax expense decreased by RMB6.9 million, or 28.5%, from RMB24.2 million for the six months ended 30 June 2011 to RMB17.3 million for the Interim Period. Effective tax rate was approximately 15.8% for the six months ended 30 June 2011 and 10.8% for the Interim Period.

Profit for the Period

As a result of the foregoing, profit for the period increased from RMB128.9 million for the six months ended 30 June 2011 to RMB142.1 million for the Interim Period.

Inventories

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

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Inventory	**596,090**	509,510
Turnover days of inventory (in days)[1]	**180**	149

[1] Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2011. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase in inventory turnover days from 149 days as at 31 December 2011 to 180 days as at 30 June 2012 primarily reflected an increase in inventory balance associated with (i) the procurement of steel pipes for drill pipes and related products segment due to the expected increase in production volume from the second quarter of 2012, and (ii) the procurement of stainless steel tube for coating materials and services segment for the production of newly launched product, Corrosion Resistance Alloy Lined Pipe.

Trade and Other Receivables

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

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Trade receivables		
– Due from third parties	**1,055,883**	968,580
– Due from related parties	**17,204**	59,350
– Less: Provision for impairment of receivables	**(14,724)**	(11,033)
Trade receivables – net	**1,058,363**	1,016,897
Other receivables		
– Due from third parties	**64,647**	44,123
– Due from related parties	**54,227**	55,740
Other receivables	**118,874**	99,863
Bills receivable	**22,398**	31,878
Dividends receivable	**1,572**	–
Prepayments	**123,819**	164,514
Total	**1,325,026**	1,313,152

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

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Trade receivables, gross		
– Within 90 days	**669,721**	602,667
– Over 90 days and within 180 days	**81,557**	213,645
– Over 180 days and within 360 days	**212,511**	109,046
– Over 360 days and within 720 days	**72,940**	75,107
– Over 720 days	**36,358**	27,455
	1,073,087	1,027,930
Turnover days of trade receivables[1]	**203**	177

[1] Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2011. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

As at 31 December 2011 and 30 June 2012, trade receivables of RMB414.2 million and RMB388.6 million, representing 40.3% and 36.2% 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, the Company believes that there had been no change in their credit history or quality and the balances were fully collectable. The Company did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, the Company believes 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 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Bills payable	136,538	103,195
Trade payables:		
– Due to third parties	399,728	312,406
– Due to related parties	18,240	10,135
Other payables:		
– Due to third parties	45,840	44,331
– Due to related parties	12,068	33,900
Staff salaries and welfare payables	26,075	32,328
Advance from customers	55,291	43,030
Interest payables	1,731	1,764
Accrued taxes other than income tax	27,898	28,373
Dividends payable	16,143	13,078
Other liabilities	1,297	2,320
	740,849	624,860

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

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Trade payables, gross		
– Within 90 days	348,727	220,953
– Over 90 days and within 180 days	28,077	20,940
– Over 180 days and within 360 days	24,063	19,739
– Over 360 days and within 720 days	13,773	13,526
– Over 720 days	3,328	47,383
	417,968	322,541
Turnover days of trade payables(1)	121	102

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2011. Average trade payables equal balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2011 to 30 June 2012 reflected the 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 30 June 2012, the Group had utilized approximately HK$940 million of the proceeds. The balance of the raised fund was placed with licenced financial institutions.

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 30 June 2012 is summarized in the following table:

	Planned at the Global Offering HKD in million	**Residual balance as at 30 June 2012 HKD in million**
Gross proceeds from the Global Offering	1,040	
Net proceeds after expenses	954	
Expansion of coating materials and services	229	**14**
Expansion of oilfield services	224	**–**
Repayment of outstanding balances due to controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"))	189	**–**
Repayment of bank borrowings	165	**–**
Upgrading of production capacity for drill pipes	95	**–**
Working capital and general corporate purpose	52	**–**
Total	954	**14**

DIVIDENDS

During the Interim Period, a final dividend of HK6.9 cents per share of the Company (the "**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 of directors (the "**Directors**") of the Company (the "**Board**") resolved not to declare any interim dividend for the Interim Period.

BUSINESS REVIEW

In the first half of 2012, despite the complex global economic environment, Hilong managed to maintain a solid growth in its business. In all three segments, drill pipes and related products, coating materials and services and oilfield services, Hilong successfully executed its growth strategies and achieved revenue increase compared with the same period last year. Also, Hilong achieved breakthroughs in R&D, production and marketing. In addition to maintaining its leading position in domestic drill pipe and coating markets, Hilong dedicated to implementing its international expansion plans and building up a global network rapidly.

1. Drill pipes and related products segment

In the first half of 2012, revenue from drill pipes and related products segment grew by 14% on period-on-period basis and reached to RMB413 million. Revenue from this segment was primarily derived from the sales of drill pipes. The sales volume of drill pipes was 16,745 tonnes, representing a 60% increase compared with the same period last year. During this period, the average selling price of drill pipes decreased, led by the selling price decrease of API standard drill pipes in domestic market, and by its price adjustment to help Hilong enter into new geographical regions. However, through better control over cost, Hilong maintained the gross profit margin of this segment above 37%. The segment well executed the growth plan through upgrading production capacity, expanding overseas and focusing on high end products.

On the production front, Hilong upgraded and adjusted the drill pipe production line located in Shanghai and made improvements for the key bottleneck processes and technologies. As a result, the production efficiency was significantly improved and the product offerings were extended from 9 meters long drill pipes to 14 meters. With its market-oriented R&D efforts and strong sales network, the utilization rate of drill pipe facility was substantially enhanced over the same period last year, from 52% to 75%, while the annual capacity in the PRC plant maintained at 40,600 tonnes. Hilong Petroleum Pipe Company LLC., the subsidiary located in Abu Dhabi that Hilong acquired in the end of 2011, has commenced mass production and gradually increasing its production volume. In the future, its annual capacity contribution is estimated at about 10,000 tonnes. At the same time, Hilong Petroleum Pipe Company LLC. has passed the certification process of most of the key customers, laying a strong foundation for its future growth.

In relation to R&D, Hilong's R&D team has successfully marketed series of new customized products, such as large-diameter drill pipe series, including 8⅝" drill pipe used in coal seam gas reserve circulation drilling, which sets the largest diameter specification for drill pipes produced in China; and 5⅞" drill pipe, which is becoming the choice for ultra-deep wells, deep-water offshore drilling and extended reach wells. In addition, products, including sour service heavy-weight drill pipes and sour service drill pipe tool joints, have passed various tests and won sales contracts from Canada.

On the marketing front, Hilong maintained its leadership in the PRC and Russia. In Canada, Middle East and South America, Hilong has made active steps in securing new customers, expanding market share and promoting high-end products. For example, in the first half of this year, Hilong for the first time won tender for the three-in-one customized products with sour service drill pipes, double-shoulder tool joints and sour service coatings in Canada. Hilong continued tapping into new regions in many ways. Compared with 2011, Hilong enhanced its cooperation with domestic rig manufacturers. In the first half of this year, Hilong sold more than 3,000 tonnes of drill pipes to Chinese rig manufactures to be used in its new rigs exported to South America.

2. Coating materials and services segment

For the Interim Period, revenue from coating materials and services segment increased by 21% period-on-period to RMB273 million. For this segment, Hilong closely followed its growth strategies, increased the proportion of high-margin products and services, actively increased the capacity of OCTG coating services and stably retained its leading market position.

In the first half of 2012, the coating materials and services segment moved towards high-margin products and services. Compared with the first half of 2011, the fastest growing business sub-segments were OCTG and line pipe coating services of higher gross profit margin, followed by OCTG coating materials. Hilong reduced the sales of line pipe coating materials, especially the standard coating materials generating lower margin. Consequently, the gross profit margin of this segment moved up from 37% for the second half of 2011 to 44% for the Interim Period.

Historically, the growth of OCTG coating materials and services business would be constrained by the capacity of the coating service plants. At the end of 2011, the coating services capacity of Hilong is about 2,600,000 meters per year, and in 2012, the expansion of the coating services capacity is continued. The construction of the coating plant located in Russia, an area near Yekaterinburg, has been almost completed. The plant has a production line for OCTG coating services with an annual capacity of about 600,000 meters, and it is supplemented with hard banding and welding facilities. The plant finished trial production in August this year, and is expected to commence mass production towards the end of the year. The construction of the OCTG coating service plant in Edmonton, Canada is continuing and it is anticipated to reach an annual capacity of about 600,000 meters after the completion of the construction. In China, Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. completed the upgrade of its production facilities at the end of last year, and is expected to contribute an annual capacity of about 800,000 meters. Capitalizing on geographical advantages, the new coating plants in Tianjin and Russia have built satisfactory orderbook.

For the line pipe coating materials and services, Hilong focused on complex, large-scale projects, for instance, the West-to-East Gas Pipeline Project Phase III. Among international projects, Hilong is becoming better and better recognized. For example, in the Petroleum Development Oman PDO Gas Transportation Project, being the world's longest single bi-directional stainless steel coating project, Hilong has successfully passed the certification, and has become the only qualified Chinese line pipe coating service provider. In addition to traditional line pipe coating materials and services, Hilong also launched a new anti-corrosion technique, the Corrosion Resistance Alloy Lined Pipe services. The newly launched service is well recognized by customers and realized sales from energy projects in Turkmenistan.

With respect to R&D efforts, Hilong continued rolling out new products and technologies, such as heat-resistant coating materials for oilfield transmission pipes and interior anti-corrosion coating materials for deep water offshore gas transmission pipes, which were successfully launched to the market.

3. Oilfield services segment

For the Interim Period, revenue from oilfield services segment recorded a period-on-period growth of 40% to RMB244 million. As of 30 June 2012, Hilong's oilfield services team operated a total of 10 sets of drilling equipment overseas, increased from 9 sets at the end of 2011. Hilong has a new rig in Colombia that commenced drilling in June this year. Another rig that commenced drilling this year was the one which won a drilling contract from Shell at the end of last year, and commenced drilling this April.

During the Interim Period, the oilfield services team of Hilong continued enhancing its service capabilities and received very positive feedback from customers, proved by renewed contracts from large international customers such as Shell and Schlumberger. The new rig that commenced drilling in Colombia in June 2012 was engaged by a subsidiary of Sinochem Group, marking its entry into the Colombian market for the first time. Hilong's oilfield services team was well-reputed amongst customers for its superb services. The Kazakhstan and Nigeria teams of Hilong were rewarded repeatedly performance-based bonuses from its customers for its efficiency and premium work quality.

PROSPECTS

Looking forward to the second half of 2012, Hilong will continue adhering to its development plans: maintain a leading position in the domestic market and expand market shares internationally leveraging the Middle East plant and the newly acquired Hilong USA, LLC. Meanwhile, Hilong will also focus on the R&D of high-end products, so as to enhance its profitability.

For drill pipes and related products segment, Hilong will continue increasing overseas market presence and enhancing its competitiveness in high-end products. At the same time, Hilong will control costs through facility upgrade and further integration of production processes.

In respect of coating segment, for OCTG coating materials and services, Hilong will continue the construction of coating plant in Canada. On top of the existing OCTG coating orders, Hilong will capture more high-quality customers and orders. For the line pipe coating services, in addition to the existing products offerings, active efforts will be made to promote the Corrosion Resistance Alloy Lined Pipe technology. Hilong has also commenced the construction of the concrete weight coating project for offshore transmission pipes, and Hilong will seek to complete the construction of the production line.

The oilfield services team will continue working on the drilling contracts. Hilong will enhance the regional management efficiency. After the Interim Period, Hilong's oilfield services team secured two new drilling service contracts with Schlumberger's local joint venture in Ecuador. The two drilling contracts will be commenced in the second half of this year.

On group management level, Hilong will enhance its corporate governance, control administrative expenses, and better manage working capital.

Hilong is very confident when looking into the second half of the year. Usually, drilling operations are more active in the second half of the year than the first half. From its current orderbook, Hilong is expecting an increasing demand as compared with the first half of the year, with a higher percentage of high-end products and services. Hilong also believes that the Group's business will benefit from the PRC's strong supporting policies for the exploration of natural gas, shale gas, coal seam gas and other unconventioned gas, as well as the construction of oil and gas transmission pipelines. Hilong firmly believes, with its continuous efforts, Hilong will maintain the growth momentum, keep offering high quality products and services to its customers, and create greater returns for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000 (Restated)
Net cash generated from/(used in) operating activities	**110,824**	(39,371)
Net cash used in investing activities	**(156,812)**	(320,755)
Net cash (used in)/generated from financing activities	**(31,859)**	339,258
Net decrease in cash and cash equivalents	**(77,847)**	(21,228)
Exchange gains/(losses) on cash and cash equivalents	**450**	(947)
Cash and cash equivalents at beginning of the period	**325,500**	256,802
Cash and cash equivalents at end of the period	**248,103**	234,627

Operating Activities

Net cash from operating activities for the Interim Period was RMB110.8 million, representing an increase of RMB150.2 million compared with the same period in 2011, which was primarily attributable to the cash of RMB162.8 million generated from operations, partially offset by the interest payment of RMB20.5 million and income tax payment of RMB31.5 million.

Investing Activities

Net cash used in investing activities during the Interim Period was RMB156.8 million, representing a decrease of RMB164.0 million compared with the same period in 2011, which was primarily attributable to the payment of RMB101.8 million in connection with the acquisition of non-controlling interests and the payment of RMB31.8 million in connection with purchase of lease prepayments in the six months ended 30 June 2011.

Financing Activities

Net cash used in financing activities for the Interim Period was RMB31.9 million, while net cash generated from financing activities for the six months ended 30 June 2011 was RMB339.3 million. The net cash generated from financing activities for the six months ended 30 June 2011 was mainly attributable to the proceeds of RMB817.5 million from the Global Offering and the payment of RMB249.5 million in connection with the reorganization of the Group.

CAPITAL EXPENDITURES

Capital expenditures were RMB207.2 million and RMB270.9 million for the six months ended 30 June 2011 and the Interim Period, respectively. The increase in capital expenditures for the Interim Period primarily reflected the purchase of drill rigs and related equipments.

INDEBTEDNESS

As at 30 June 2012, the outstanding indebtedness of RMB858.4 million was mainly denominated in RMB and HKD. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Non-current		
Convertible bonds	**193,268**	178,741
Bank borrowings – unsecured	**10,000**	1,200
Bank borrowings – secured	**94,873**	–
Less: Current portion of non-current borrowings	**–**	(1,200)
	298,141	178,741
Current		
Bank borrowings – secured	**206,274**	267,306
Bank borrowings – unsecured	**354,000**	306,574
Related party borrowing	**–**	7,876
Current portion of non-current borrowing	**–**	1,200
	560,274	582,956
	858,415	761,697

The bank borrowings of RMB152.0 million were secured by certain buildings and facilities and land use rights of the Group, with carrying amount of RMB156.3 million and RMB38.8 million as at 30 June 2012, respectively.

The bank borrowings of RMB139.1 million were secured by certain machinery and equipment with carrying amount of RMB151.8 million and certain bank deposit of the Group with carrying amount of RMB30.8 million as at 30 June 2012.

The bank borrowings of RMB10.0 million were secured by certain trade receivables with carrying amount of RMB11.2 million as at 30 June 2012.

ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA, LLC. from Hailong International (L) Ltd. ("**Hailong International**") at a purchase price of USD60,000. Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, controlling shareholder of the Company, 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 Hong Kong Institute of Certified Public Accountants (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 POLICY

As at 30 June 2012, the total number of full-time employees employed by the Group was 1,921 (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 30 June 2012:

On-site workers	1,261
Administrative	427
Research and development	101
Sales and marketing	44
Company management	23
After-sales services	16
Overseas representatives	49
	1,921

The Group offers employees remuneration packages mainly on the basis of individual performance, experience and 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 labour and social welfare authorities.

The Company also ratified and adopted a pre-IPO share option scheme on 28 February 2011. The pre-IPO share option scheme commenced on 1 January 2011, and options to subscribe for an aggregate of 46,322,000 Shares 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 balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheet plus net debt.

The gearing ratios as at 30 June 2012 and 31 December 2011 are as follows:

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Total borrowings	**858,415**	761,697
Less: Cash and cash equivalents	**248,103**	325,500
Net debt	**610,312**	436,197
Total equity	**2,092,309**	2,038,622
Total capital	**2,702,621**	2,474,819
Gearing ratio	**22.58%**	17.63%

The increase in the gearing ratio as at 30 June 2012 when compared to the gearing ratio as at 31 December 2011 resulted primarily from the increase in the balance of borrowings for the Interim Period.

FOREIGN EXCHANGE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currencies exposures, primarily with respect to United States ("**US**") dollars. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi into foreign currencies, including the US dollars, has been calculated 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 Renminbi to the US dollars. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 23.6% appreciation of Renminbi against the US dollars from 21 July 2005 to 30 June 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 Renminbi against US dollars. The Group has not entered into any hedging transactions against any fluctuation in foreign currencies. 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. For the six months ended 30 June 2011 and 2012, revenue denominated in US dollars represented 42.8% and 31.2% respectively of the total revenue of the Company.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2012

	Note	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,285,200	1,096,113
Lease prepayments	7	86,057	86,589
Intangible assets	7	69,260	69,397
Investments in associates		52,812	53,539
Investments in jointly controlled entities		17,977	5,143
Deferred income tax assets	15	78,111	60,832
Other long-term assets		10,445	553
		1,599,862	1,372,166
Current assets			
Inventories		596,090	509,510
Trade and other receivables	8	1,325,026	1,313,152
Restricted cash		79,456	56,801
Cash and cash equivalents		248,103	325,500
		2,248,675	2,204,963
Total assets		3,848,537	3,577,129
EQUITY			
Capital and reserves attributable to equity owners of the Company			
Share capital	9	133,613	133,927
Other reserves	10	765,697	764,232
Retained earnings			
– Proposed final dividend		–	89,017
– Others		1,036,502	906,623
Currency translation differences		(32,142)	(33,650)
		1,903,670	1,860,149
Non-controlling interests		188,639	178,473
Total equity		2,092,309	2,038,622

The notes on pages 24 to 45 are an integral part of this condensed consolidated interim financial information.

	Note	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	**298,141**	178,741
Deferred income tax liabilities	*15*	**89,297**	86,951
Derivative financial instruments	*11(a)*	**15,945**	12,810
Deferred revenue		**19,000**	20,250
		422,383	298,752
Current liabilities			
Deferred revenue		**400**	400
Trade and other payables	*12*	**740,849**	624,860
Current income tax liabilities		**32,322**	31,539
Borrowings	*11*	**560,274**	582,956
		1,333,845	1,239,755
Total liabilities		**1,756,228**	1,538,507
Total equity and liabilities		**3,848,537**	3,577,129
Net current assets		**914,830**	965,208
Total assets less current liabilities		**2,514,692**	2,337,374

The notes on pages 24 to 45 are an integral part of this condensed consolidated interim financial information.

Approved by the Board of Directors on 24 August 2012.

Zhang Jun
Director

Ji Min
Director

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Note	(Unaudited) Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
Revenue	6(a)	**929,685**	761,920
Cost of sales		**(558,143)**	(425,436)
Gross profit		**371,542**	336,484
Selling and marketing expenses		**(44,560)**	(43,133)
Administrative expenses		**(125,051)**	(106,308)
Other losses – net	13	**(6,028)**	(2,307)
Operating profit		**195,903**	184,736
Finance income	14	**642**	1,487
Finance costs	14	**(35,460)**	(28,651)
Finance costs – net		**(34,818)**	(27,164)
Share of results of:			
– Associates		**845**	838
– Jointly controlled entities		**(2,572)**	(5,320)
Profit before income tax		**159,358**	153,090
Income tax expense	15	**(17,290)**	(24,235)
Profit for the period		**142,068**	128,855
Profit attributable to:			
Equity owners of the Company		**130,193**	118,035
Non-controlling interests		**11,875**	10,820
		142,068	128,855
Earnings per share from operations attributable to equity owners of the Company			
Basic and diluted earnings per share (in RMB)	16	**0.0818**	0.0893
Dividends	17	**–**	51,891

The notes on pages 24 to 45 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Profit for the period	**142,068**	128,855
Other comprehensive income:		
Currency translation differences	**660**	(1,696)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary	**848**	(2,313)
Other comprehensive income/(loss) for the period, net of tax	**1,508**	(4,009)
Total comprehensive income for the period	**143,576**	124,846
Attributable to:		
Equity owners of the Company	**131,701**	114,026
Non-controlling interests	**11,875**	10,820
	143,576	124,846

The notes on pages 24 to 45 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		(Unaudited)						
		Capital and reserves attributable to equity owners						
	Note	Share capital RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2011 as previously reported		811	(82,328)	776,116	(11,803)	682,796	222,813	905,609
Acquisition of a subsidiary under common control	*18*	–	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 period		–	–	118,035	–	118,035	10,820	128,855
Other comprehensive income								
Currency translation differences		–	–	–	(1,696)	(1,696)	–	(1,696)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		–	–	–	(2,313)	(2,313)	–	(2,313)
Total comprehensive income for the period		–	–	118,035	(4,009)	114,026	10,820	124,846
Transactions with owners								
Issue of new shares pursuant to global initial public offering, netting of listing expenses	*9(b)*	33,576	783,905	–	–	817,481	–	817,481
Series A preferred shares converted into ordinary shares	*9(c)*	4	170,128	–	–	170,132	–	170,132
Capitalization issue	*9(d)*	99,924	(99,924)	–	–	–	–	–
Capital increase to subsidiaries by their then equity owner (restated)	*10(1)*	–	19,767	–	–	19,767	–	19,767
Capital increase to subsidiaries by non-controlling interests		–	–	–	–	–	2,960	2,960
Consideration paid to the then equity owner for acquisition of a subsidiary under common control	*10(1)*	–	(9,529)	–	–	(9,529)	–	(9,529)
Pre-IPO share option plan	*10(2)*	–	4,550	–	–	4,550	–	4,550
Dividends in respect of 2010	*17*	–	–	(51,891)	–	(51,891)	–	(51,891)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(5,453)	(5,453)
Transactions with non-controlling interests		–	(38,750)	–	–	(38,750)	(69,678)	(108,428)
Total transaction with owners		133,504	830,147	(51,891)	–	911,760	(72,171)	839,589
As at 30 June 2011		134,315	754,852	819,436	(15,469)	1,693,134	161,462	1,854,596
As at 1 January 2012 as previously reported		**133,927**	**742,707**	**1,018,135**	**(34,625)**	**1,860,144**	**178,473**	**2,038,617**
Acquisition of a subsidiary under common control	*18*	**–**	**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 period		**–**	**–**	**130,193**	**–**	**130,193**	**11,875**	**142,068**
Other comprehensive income								
Currency translation differences		**–**	**–**	**–**	**660**	**660**	**–**	**660**
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		**–**	**–**	**–**	**848**	**848**	**–**	**848**
Total comprehensive income for the period		**–**	**–**	**130,193**	**1,508**	**131,701**	**11,875**	**143,576**
Transactions with owners								
Share repurchase	*9(a)*							
– repurchases of shares		**(314)**	**–**	**–**	**–**	**(314)**	**–**	**(314)**
– premium on repurchase of shares		**–**	**(3,915)**	**–**	**–**	**(3,915)**	**–**	**(3,915)**
– transfer		**–**	**314**	**(314)**	**–**	**–**	**–**	**–**
Consideration paid to the then equity owner for acquisition of a subsidiary under common control	*10(1)*	**–**	**(380)**	**–**	**–**	**(380)**	**–**	**(380)**
Pre-IPO share option plan	*10(2)*	**–**	**5,446**	**–**	**–**	**5,446**	**–**	**5,446**
Dividends in respect of 2011	*17*	**–**	**–**	**(89,017)**	**–**	**(89,017)**	**–**	**(89,017)**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(1,709)**	**(1,709)**
Total transaction with owners		**(314)**	**1,465**	**(89,331)**	**–**	**(88,180)**	**(1,709)**	**(89,889)**
As at 30 June 2012		**133,613**	**765,697**	**1,036,502**	**(32,142)**	**1,903,670**	**188,639**	**2,092,309**

The notes on pages 24 to 45 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Cash flow from operating activities		
Cash generated from/(used in) operations	**162,771**	(540)
Interest paid	**(20,507)**	(22,061)
Income tax paid	**(31,440)**	(17,130)
Net cash generated from/(used in) operating activities	**110,824**	(39,731)
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	**20,003**	105
Purchases of property, plant and equipment	**(161,382)**	(173,467)
Purchases of lease prepayments	**–**	(31,800)
Purchases of intangible assets	**(27)**	(1,900)
Transaction with non-controlling interests	**–**	(101,756)
Investment in jointly controlled entities	**(15,406)**	(11,937)
Net cash used in investing activities	**(156,812)**	(320,755)
Cash flow from financing activities		
Issue of new shares pursuant to global initial public offering, netting of listing expenses	**–**	817,481
Contributions to subsidiaries by their then equity owners	**–**	19,767
Net cash outflow arising from consideration paid to the then equity owner for acquisition of subsidiaries under common control	**(380)**	(249,528)
Proceeds from borrowings	**249,365**	123,000
Repayments of borrowings	**(167,986)**	(316,284)
Dividends paid to the non-controlling interests of the subsidiaries	**(1,798)**	(3,287)
Dividends	**(85,863)**	(51,891)
Repurchase of shares	**(2,385)**	–
Net cash used in security deposit for bank borrowings	**(22,812)**	–
Net cash (used in)/generated from financing activities	**(31,859)**	339,258
Net decrease in cash and cash equivalents	**(77,847)**	(21,228)
Exchange gains/(losses) on cash and cash equivalents	**450**	(947)
Cash and cash equivalents at beginning of the period	**325,500**	256,802
Cash and cash equivalents at end of the period	**248,103**	234,627

The notes on pages 24 to 45 are an integral part of this condensed consolidated interim financial information.

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 listing the Company's shares on the main board of the Stock Exchange. 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 Group is principally engaged in manufacturing and distribution of oil and gas equipment and coating materials, and provision of coating services and oilfield services.

The Company completed its global initial public offering and its shares were listed on the main board of the Stock Exchange on 21 April 2011 (the "**Listing**").

The condensed consolidated interim financial information is presented in Renminbi (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 24 August 2012.

This condensed consolidated interim financial information has not been audited.

(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. Huashi Hailong is a limited liability company established in 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 of the Company.

During the period from 2006 to 2008, Huashi Hailong gradually transferred its equity interests in its subsidiaries that 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 of the Listing, the Group underwent the 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) In a consideration of HK$1.0, the entire equity interest in Hilong Energy Holding Limited (formerly named Pacific Energy International Limited), a limited liability company incorporated on 15 October 2008 in the BVI by Mr. Zhang Jun, was transferred to the Company on 13 November 2008.

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION (continued)

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

(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.

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

Upon completion of the Reorganization, the Company became the holding company of the Group.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

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

(a) Amended standard adopted by the Group

The following amendment to standard is mandatory for the first time for the financial year beginning 1 January 2012.

- HKFRS 7 (Amendment) "Disclosures – Transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve 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 and interpretations 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.

3 ACCOUNTING POLICIES (continued)

(c) The following new standards and amendments 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.

- The fourth 2011 annual improvements project, 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.

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

4 ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2011.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

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

5.2 Fair value estimation

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

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

During the six months ended 30 June 2012 there was no transfer between levels of the fair value hierarchy used in measuring the fair value of financial instruments. (six months ended 30 June 2011: nil)

During the six months ended 30 June 2012 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities. (six months ended 30 June 2011: nil)

During the six months ended 30 June 2012 there were no reclassifications of financial assets. (six months ended 30 June 2011: nil)

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as senior executive management. Senior executive management reviews the Group's internal reporting in order to assess performance and allocate resources. Senior executive management has determined the operating segment based on these reports.

Senior executive management considers the business from a business perspective, and assesses the performance of the business segment based on profit before income tax without allocation of finance income/(costs), share of profits of associates and share of losses of jointly controlled entities, which is consistent with that in the condensed consolidated interim financial information.

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

The amount provided to senior executive management with respect to total liabilities is measured in a manner consistent with that of the condensed consolidated interim financial 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 purpose and provision of coating services (the interior of most of the drilling pipes needs to be coated with anticorrosive chemicals); and
- Oilfield services provision, including the provision of well drilling services to oil and gas producers.

(a) Revenue

The revenue of the Group for the six months ended 30 June 2012 and 2011 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Drill pipes and related products	**412,942**	361,908
Coating materials and services	**273,203**	225,660
Oilfield services	**243,540**	174,352
	929,685	761,920

6 SEGMENT INFORMATION (continued)

(b) Segment information

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

Business segment	Six months ended 30 June 2012 (Unaudited) Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Revenue				
Segment revenue	444,939	331,047	243,540	1,019,526
Inter-segment sales	(31,997)	(57,844)	–	(89,841)
Revenue from external customers	412,942	273,203	243,540	929,685
Results				
Segment gross profit	153,993	120,446	97,103	371,542
Segment profit	70,462	75,547	49,894	195,903
Finance income				642
Finance costs				(35,460)
Share of profits of associates				845
Share of losses of jointly controlled entities				(2,572)
Profit before income tax				159,358
Other information				
Depreciation of property, plant and equipment	17,996	8,010	26,859	52,865
Amortization of lease prepayments	444	88	–	532
Amortization of intangible assets	130	34	–	164
Capital expenditure	32,390	9,069	229,429	270,888

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

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2011 is as follows:

	Six months ended 30 June 2011 (Unaudited, restated)			
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	389,140	243,171	174,352	806,663
Inter-segment sales	(27,232)	(17,511)	–	(44,743)
Revenue from external customers	361,908	225,660	174,352	761,920
Results				
Segment gross profit	155,632	101,948	78,904	336,484
Segment profit	89,890	60,965	33,881	184,736
Finance income				1,487
Finance costs				(28,651)
Share of profits of associates				838
Share of losses of jointly controlled entities				(5,320)
Profit before income tax				153,090
Other information				
Depreciation of property, plant and equipment	19,206	5,501	10,320	35,027
Amortization of lease prepayments	444	89	–	533
Amortization of intangible assets	107	83	–	190
Capital expenditure	61,427	9,061	136,679	207,167

	As at 31 December 2011 (Audited, restated)			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	1,901,650	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

6 SEGMENT INFORMATION (continued)

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
The PRC	**515,558**	390,009
North and South America	**198,505**	155,585
Russia, Central Asia and East Europe	**101,734**	58,990
West Africa	**65,026**	18,501
Middle East	**48,862**	138,835
	929,685	761,920

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
		(Restated)
The PRC	**745,511**	733,964
North and South America	**294,686**	155,495
Middle East	**209,581**	236,871
West Africa	**141,164**	72,435
Russia, Central Asia and East Europe	**49,575**	53,334
	1,440,517	1,252,099

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

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
The PRC	**47,866**	115,166
North and South America	**147,686**	2,596
West Africa	**73,113**	74,347
Middle East	**1,706**	4,214
Russia, Central Asia and East Europe	**517**	10,844
	270,888	207,167

During the six months ended 30 June 2012 and 2011, revenue from individual customer did not exceed ten percent of the Group's total consolidated revenue.

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

	(Unaudited)		
	Property, plant and equipment RMB'000	**Lease prepayments** RMB'000	**Intangible assets** RMB'000
At 1 January 2011 (Restated)			
Cost	889,969	61,172	15,568
Accumulated depreciation	(156,412)	(5,384)	(1,691)
Impairment provision	–	–	(2,097)
Net book amount	733,557	55,788	11,780
Six months ended 30 June 2011			
Opening net book amount	733,557	55,788	11,780
Additions	173,467	31,800	1,900
Disposals	(56)	–	–
Depreciation	(35,027)	(533)	(190)
Exchange differences	(7,028)	–	–
Closing net book amount	864,913	87,055	13,490
At 30 June 2011 (Restated)			
Cost	1,055,578	92,972	17,468
Accumulated depreciation	(190,665)	(5,917)	(1,881)
Impairment provision	–	–	(2,097)
Net book amount	864,913	87,055	13,490
At 1 January 2012 (Restated)			
Cost	**1,329,763**	**92,939**	**73,640**
Accumulated depreciation	**(233,650)**	**(6,350)**	**(4,243)**
Impairment provision	**–**	**–**	**–**
Net book amount	**1,096,113**	**86,589**	**69,397**
Six months ended 30 June 2012			
Opening net book amount	**1,096,113**	**86,589**	**69,397**
Additions	**270,861**	**–**	**27**
Disposals	**(32,257)**	**–**	**–**
Depreciation	**(52,865)**	**(532)**	**(164)**
Exchange differences	**3,348**	**–**	**–**
Closing net book amount	**1,285,200**	**86,057**	**69,260**
At 30 June 2012			
Cost	**1,568,367**	**92,939**	**73,667**
Accumulated depreciation	**(283,167)**	**(6,882)**	**(4,407)**
Impairment provision	**–**	**–**	**–**
Net book amount	**1,285,200**	**86,057**	**69,260**

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

As at 30 June 2012, certain buildings and facilities with carrying amount of RMB156,333,000 (31 December 2011: RMB172,707,000) were secured for the Group's borrowing (Note 11(b)).

As at 30 June 2012, certain machinery and equipment with carrying amount of RMB151,799,000 were secured for the Group's borrowing (Note 11(b)).

As at 30 June 2012, certain land use right with a carrying amount of RMB38,844,000 (31 December 2011: RMB38,859,000) was pledged as collaterals for the Group's borrowings (Note 11(b)).

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000 (Restated)
Bills receivable	**22,398**	31,878
Trade receivables *(a)*		
– Due from third parties	**1,055,883**	968,580
– Due from related parties *(Note 19(c))*	**17,204**	59,350
Trade receivables – gross	**1,073,087**	1,027,930
Less: Provision for impairment of receivables	**(14,724)**	(11,033)
Trade receivables – net	**1,058,363**	1,016,897
Dividends receivable	**1,572**	–
Other receivables	**118,874**	99,863
Prepayments	**123,819**	164,514
Trade and other receivables	**1,325,026**	1,313,152

(a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables, before provision for impairment, as at 30 June 2012 and 31 December 2011 was as follows:

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000 (Restated)
Trade receivables, gross		
– Within 90 days	**669,721**	602,677
– Over 90 days and within 180 days	**81,557**	213,645
– Over 180 days and within 360 days	**212,511**	109,046
– Over 360 days and within 720 days	**72,940**	75,107
– Over 720 days	**36,358**	27,455
	1,073,087	1,027,930

As at 30 June 2012, trade receivables of RMB11,179,000 (31 December 2011: RMB10,694,000) were secured for the Group's borrowing (Note 11(b)).

9 SHARE CAPITAL

		(Unaudited)		
	Note	**Number of ordinary shares**	**Nominal value of ordinary shares** (In HK$)	**Equivalent nominal value of ordinary shares** (In RMB)
Opening balance 1 January 2012		1,595,216,000	159,521,600	133,927,000
Share repurchase	*(a)*	(3,876,000)	(387,600)	(314,000)
As at 30 June 2012		1,591,340,000	159,134,000	133,613,000
Opening balance 1 January 2011		953,300	95,330	811,000
Global initial public offering of HK$0.1 each on 21 April 2011	*(b)*	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	*(c)*	46,700	4,670	4,000
Capitalization issue of HK$0.1 each on 21 April 2011	*(d)*	1,199,000,000	119,900,000	99,924,000
As at 30 June 2011		1,600,000,000	160,000,000	134,315,000

(a) On 9 January 2012, 3,876,000 shares with a nominal value of HK$387,600 (equivalent to RMB314,000) were repurchased at a total consideration of HK$5,217,000 (equivalent to RMB4,229,000) (Note 10(3)).

(b) 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 on the same date. The listing proceeds to the Company, netting off 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.

(c) On 21 April 2011, the successful initial public offering date, all the obligations to deliver cash or other financial assets were discharged (Note 11(d)), so the Company classified the liability component of Series A preferred shares to the equity, resulting in the increase in issued share capital of the Company by RMB4,000 and the share premium by RMB170,128,000.

(d) On 21 April 2011, pursuant to the written resolutions of all the shareholders 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 resulting in the increase in issued share capital of the Company by RMB99,924,000 and the decrease in share premium by RMB99,924,000.

10 OTHER RESERVES

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000 (Restated)
Statutory reserve	**83,787**	83,787
Merger reserve *(1)*	**(141,929)**	(141,549)
Share options reserve *(2)*	**16,660**	11,214
Capital redemption reserve *(3)*	**702**	388
Share premium *(3)*	**845,130**	849,045
Capital reserve	**(38,653)**	(38,653)
	765,697	764,232

(1) Merger reserve

	(Unaudited) Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
Beginning of the period	**(141,549)**	(151,787)
Contribution to subsidiaries by their then equity owners *(a)*	**–**	19,767
Consideration paid to the then equity owner for acquisition of a subsidiary under common control *(b)*	**(380)**	(9,529)
End of the period	**(141,929)**	(141,549)

(a) Contribution to subsidiaries by their then equity owners

Contribution to subsidiaries by their then equity owners during the six months ended 30 June 2011 represented cash injection by Hailong International in Hilong USA, LLC. of RMB14,492,000 and cash injection by Hailong International in Hilong Drill Pipe (Wuxi) Co., Ltd. of RMB5,275,000, which reflected as a deemed capital injection to the Group by the controlling shareholder.

(b) Consideration paid to the then equity owners for acquisition under common control

Consideration paid to the then equity owners for acquisition of a subsidiary under common control during six months ended 30 June 2012 represented the acquisition by Hilong Energy Limited of 100% equity interest in Hilong USA, LLC. of RMB380,000 (Note 18).

Consideration paid to the then equity owners for acquisition of a subsidiary under common control during six months ended 30 June 2011 represented the acquisition by Hilong Energy Limited of 40% equity interest in Hilong Drill Pipe (Wuxi) Co., Ltd. of RMB9,529,000.

10 OTHER RESERVES (continued)

(2) Share options reserve

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

On 28 February 2011, the company ratified and adopted the pre-IPO share option plan. The share options outstanding as at 30 June 2012 have the following vesting dates and exercise prices:

	(Unaudited) Six months ended 30 June 2012		
Vesting date	**Exercise price (per share in HK$)**	**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
	2.60	2.11	45,000,000

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

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

The significant inputs into the model were as follows,

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

(3) Capital redemption reserve

During the six months ended 30 June 2012, the Company repurchased 3,876,000 ordinary shares at an aggregated consideration of HK$5,217,000 (equivalent to RMB4,229,000). All the shares repurchased during this period were cancelled on delivery of share certificates and the nominal value of such cancelled shares of RMB314,000 was credited to capital redemption reserve and paid out from the Company's retained earnings, and the relevant premium of RMB3,915,000 was paid out from the Company's share premium (six months ended 30 June 2011: nil).

11 BORROWINGS

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000
Non-current		
Convertible bonds *(a)*	**193,268**	178,741
Bank borrowings – unsecured	**10,000**	1,200
Bank borrowings – secured *(b)*	**94,873**	–
Less: Current portion of non-current borrowings	**–**	(1,200)
	298,141	178,741
Current		
Bank borrowings – secured *(b)*	**206,274**	267,306
Bank borrowings – unsecured	**354,000**	306,574
Related party borrowing *(c)*	**–**	7,876
Current portion of non-current borrowing	**–**	1,200
	560,274	582,956
	858,415	761,697

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Opening amount	**761,697**	804,624
Additions of borrowings	**249,365**	123,000
Repayments of borrowings	**(167,986)**	(316,284)
Amortization of convertible bonds by using effective interest method *(a)*	**14,986**	–
Initial recognition and amortization of interest-free loan by using effective interest method	**–**	(486)
Amortization of liability component of Series A preferred shares *(d)*	**–**	6,545
Interest settlement	**–**	(5,814)
Preferred shares converted into ordinary shares and share premium *(Note 9(c))*	**–**	(170,132)
Exchange difference	**353**	(264)
Closing amount	**858,415**	441,189

11 BORROWINGS (continued)

(a) Convertible bonds

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

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

	The liability component (Borrowings) RMB'000	Derivative financial instruments RMB'000	Total RMB'000
As at 1 January 2012	178,741	12,810	191,551
Amortization using the effective interest method	14,986	–	14,986
Changes in fair value	–	3,085	3,085
Exchange difference	(459)	50	(409)
As at 30 June 2012	193,268	15,945	209,213

(b) Secured bank borrowings

The bank borrowings of RMB152,000,000 were jointly secured by certain buildings and facilities and land use rights (Note 7) of the Group, with the carrying amount of RMB156,333,000 and RMB38,844,000 as at 30 June 2012;

The bank borrowings of RMB139,148,000 were secured by certain machinery and equipment with carrying amount of RMB151,799,000 (Note 7) and certain bank deposit of the Group, with carrying amount of RMB30,812,000 as at 30 June 2012; and

The bank borrowings of RMB10,000,000 were secured by certain trade receivables with carrying amount of carrying amount of RMB11,179,000 (Note 8) as at 30 June 2012.

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

The bank borrowings of RMB14,983,000 were secured by certain bank deposit of the Group, with carrying amount of RMB8,000,000 as at 31 December 2011; and

The bank borrowings of RMB26,000,000 were secured by certain trade receivables with carrying amount of RMB10,694,000 (Note 8) as at 31 December 2011.

(c) Related party borrowing

Related party borrowing represented loans borrowed from Hailong International, which are unsecured, interest free, using the contractual undiscounted cash flow. The related party borrowing was recognized initially at its fair value and subsequent measured at amortized cost using effective interest method.

(d) Series A preferred shares

In August 2010, pursuant to an investment agreement, UMW China Ventures (L) Ltd. ("**UMW CV**"), the non-controlling shareholder, agreed to subscribe to 46,700 Series A preferred shares issued by the Company at a price of RMB3,595 per share with total amount of RMB167,890,000. The Series A preferred shares were subsequently converted into the ordinary shares of the Company after the successful initial public offering (Note 9(c)).

12 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000 (Restated)
Bills payable	**136,538**	103,195
Trade payables:		
– Due to third parties	**399,728**	312,406
– Due to related parties *(Note 19(c))*	**18,240**	10,135
Other payables:		
– Due to third parties	**45,840**	44,331
– Due to related parties *(Note 19(c))*	**12,068**	33,900
Staff salaries and welfare payables	**26,075**	32,328
Advance from customers	**55,291**	43,030
Interest payables	**1,731**	1,764
Accrued taxes other than income tax	**27,898**	28,373
Dividends payable	**16,143**	13,078
Other liabilities	**1,297**	2,320
	740,849	624,860

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

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000
Trade payables, gross		
– Within 90 days	**348,727**	220,953
– Over 90 days and within 180 days	**28,077**	20,940
– Over 180 days and within 360 days	**24,063**	19,739
– Over 360 days and within 720 days	**13,773**	13,526
– Over 720 days	**3,328**	47,383
	417,968	322,541

13 OTHER GAINS/(LOSSES) – NET

	(Unaudited) Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Exchange gains/(losses) – net	**5,053**	(6,071)
Government grants	**2,128**	3,570
Changes in fair value of convertible bonds *(Notes 11(a))*	**(3,085)**	–
Changes in fair value of Series A preferred shares *(Notes 11(d))*	**–**	133
(Loss)/gain on disposal of property, plant and equipment – net	**(12,256)**	49
Others	**2,132**	12
	(6,028)	(2,307)

14 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000 (Restated)
Finance income:		
– Interest income derived from bank deposits	**642**	703
– Initial recognition of an interest-free related party borrowing using effective interest method *(Note 11(c))*	**–**	784
	642	1,487
Finance cost:		
– Amortization of an interest-free related party borrowing using effective interest method *(Note 11(c))*	**–**	(298)
– Amortization of the liability component of Convertible bonds *(Note 11(a))*	**(14,986)**	
– Amortization of the liability component of Series A preferred shares using effective interest method *(Note 11(d))*	**–**	(6,545)
– Interest expense on bank borrowings	**(20,474)**	(21,808)
	(35,460)	(28,651)
Finance costs – net	**(34,818)**	(27,164)

15 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current income tax	**32,223**	26,442
Deferred income tax	**(14,933)**	(2,207)
Income tax expense	**17,290**	24,235

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 are not subject to any income tax according to relevant rules and regulations.

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the six months ended 30 June 2012 and 2011.

Enterprises incorporated in other places are subject to income tax rates of 15% to 33% prevailing in the places in which the Group operated for the six months ended 30 June 2012 and 2011.

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

Certain subsidiaries of the Group have obtained approvals from the relevant tax authorities in the PRC for their entitlement to exemption from income tax for the first two years and a 50% reduction in the income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years pursuant to the relevant tax rules and regulations applicable to foreign investment enterprises in the PRC.

15 INCOME TAX EXPENSE (continued)

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

Pursuant to the Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared and distributed to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. Deferred income tax liabilities of RMB3,638,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries during the six months ended 30 June 2012. Such amounts are permanently reinvested. Unremitted earnings totaled RMB198,980,000 at 30 June 2012 (31 December 2011: RMB162,600,000).

16 EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net profit for the period attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share is computed by dividing the net profit for the period, by the weighted-average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including share options, convertible bonds and Series A preferred shares.

The weighted average number of ordinary shares deemed to be outstanding during the six months ended 30 June 2011 is determined on the assumption that the subdivision of number of shares by a multiple of 1,200 as described in Note 9(d) had been effected since 1 January 2011.

	(Unaudited) Six months ended 30 June	
	2012	2011 (Restated)
Basic and diluted profit attributable to equity owners of the Company (RMB'000)	**130,193**	118,035
Basic and diluted weighted average number of ordinary shares outstanding (thousand)	**1,591,510**	1,321,309
Basic and diluted earnings per share (RMB)	**0.0818**	0.0893

As at 30 June 2012, there were 45,000,000 share options outstanding and convertible bonds which can be converted into 97,188,000 ordinary shares that could potentially have a dilutive impact in the future but were anti-dilutive in the six months ended 30 June 2012 (30 June 2011: there were 46,322,000 share options outstanding that could potentially have a dilutive impact in the future but were anti-dilutive in the six months ended 30 June 2011).

17 DIVIDENDS

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

The dividend in respect of 2010 of HK$0.0390 (equivalent to RMB0.0324) per share, amounting to a total dividend of HK$62,400,000 (equivalent to RMB51,891,000) was approved at the Company's annual general meeting on 17 June 2011. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2011.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2012.

18 ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA, LLC. from Hailong International. Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, the controlling shareholder of the Company and the control is not transitory. Accordingly, the transaction has been accounted for on the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, under which the net assets of Hilong USA, LLC. were consolidated by using the existing book values and the consolidated income statements included the results of Hilong USA, LLC. from the earliest date presented. The comparative amounts in the consolidated financial statements were restated as well.

The consideration of USD60,000 (equivalent to RMB380,000) transferred for the acquisition were debited to other reserve (Note 10(1)) as a deemed distribution to the controlling shareholder of the Company.

19 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2012 and 2011, and balances arising from related party transactions as at 30 June 2012 and 31 December 2011.

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hailong International
Huashi Hailong
Beijing Huashi Hilong Oil Investment Co., Ltd.
Jiangyan Hilong Wire Welding Co., Ltd.

(iv) Associates of the Group

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

(v) Jointly controlled entities of the Group

Almansoori 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.*

(vi) Controlled by key management personnel

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

19 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the six months ended 30 June 2012 and 2011, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Sales of goods:		
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**11,976**	–
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**10,183**	11,082
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,768**	3,258
Jiangyan Hilong Wire Welding Co., Ltd.	**477**	–
Almansoori Hilong Petroleum Pipe Company	**–**	57,693
Nantong Hilong Steel Pipe Co., Ltd.	**–**	14,330
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**–**	3,732
	25,404	90,095

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Purchase of materials:		
Nantong Hilong Steel Pipe Co., Ltd.	**11,914**	21,444
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**2,107**	–
	14,021	21,444
Rental expenses:		
Huashi Hailong	**1,500**	–

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

19 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000
Trade receivables due from:		
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**7,339**	425
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**6,004**	10,482
Jiangyan Hilong Wire Welding Co., Ltd.	**2,324**	5,275
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,537**	2,519
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**–**	184
Nantong Hilong Steel Pipe Co., Ltd.	**–**	25,521
Hilong Temerso Co., Ltd.	**–**	14,944
	17,204	59,350
Dividends receivable due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**1,572**	–
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**21,772**	20,398
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**21,315**	19,132
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**8,691**	1,500
Huashi Hailong	**2,447**	2,293
Nantong Hilong Steel Pipe Co., Ltd.	**2**	–
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**–**	10,550
Hilong Temerso Co., Ltd.	**–**	1,867
	54,227	55,740
Prepayments to:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**4,500**	3,700
Huashi Hailong	**3,500**	–
	8,000	3,700

19 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000
Trade payables due to:		
Nantong Hilong Steel Pipe Co., Ltd.	13,939	–
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	2,465	4,767
Jiangyan Hilong Wire Welding Co., Ltd.	1,836	5,368
	18,240	10,135
Other payables due to:		
Nantong Hilong Steel Pipe Co., Ltd.	12,068	33,900
Dividends payable due to:		
Hailong International	9,470	9,470
Loan borrowing from:		
Hailong International *(Note 11(c))*	–	7,876

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

20 COMMITMENTS

(a) Capital commitments

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

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000
Property, plant and equipment	422	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:

	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000
No later than 1 year	6,877	9,121
Later than 1 year and no later than 3 year	4,931	5,428
Later than 3 years	15,709	9,059
	27,517	23,608

CHANGE IN DIRECTORS' INFORMATION

There were changes in the positions of the Directors held with the Company since the date of the 2011 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, with effect from 29 March 2012, as follow:

(a) Re-designation of Directors

(i) Ms. Zhang Shuman has been re-designated as a non-executive Director from an executive Director; and

(ii) Mr. Wang Tao (汪濤) has been re-designated as an executive Director from a non-executive Director.

(b) Change of Members of the Audit Committee

(i) Mr. Wang Tao (汪濤) ceased to be a member of the audit committee; and

(ii) Ms. Zhang Shuman has been appointed as a member of the audit committee.

(c) Change of Chairman and Members of the Nomination Committee

(i) Mr. Wang Tao (王濤) has been appointed as the chairman of the nomination committee in place of Ms. Zhang Shuman;

(ii) Ms. Zhang Shuman ceased to be the chairman and a member of the nomination committee; and

(iii) Mr. Wang Tao (汪濤) has been appointed as a member of the nomination committee.

(d) Change of Chairman of the Remuneration Committee

(i) Mr. Wang Tao (王濤) has been appointed as the chairman of the remuneration committee in place of Mr. Yuan Pengbin; and

(ii) Mr. Yuan Pengbin ceased to be the chairman and remains as a member of the remuneration committee.

In addition, Mr. Lee Siang Chin has been appointed as an independent non-executive director of AmInvestment Management Sdn Bhd with effect from 15 June 2012.

DISCLOSURE OF INTERESTS

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

As at 30 June 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange 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	971,959,200(1)	61.08%
	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. Wang Tao (汪濤)	Beneficial owner	1,000,000	0.06%
Mr. Lee Siang Chin	Interest of controlled corporation	900,000(4)	0.06%

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 holds 50% interest. Mr. Lee Siang Chin is therefore deemed to be interested in these shares.

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

Name of Director	Capacity	Number of underlying shares interested under the pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Mr. Ji Min	Beneficial owner	800,000	21 April 2012 – 31 December 2020	0.05%
Mr. Yuan Pengbin	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.14%
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 associated corporation of the Company

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

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

As at 30 June 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 positions 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	971,959,200[(1)]	61.08%
Global Nominees Ltd.	Nominee	1,083,960,000[(1)(2)]	68.12%
Standard Chartered Trust (Cayman) Limited	Trustee	1,083,960,000[(1)(2)]	68.12%
Ms. Gao Xia	Interest of spouse	1,085,320,000[(3)]	68.20%
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%
Value Partners Group Limited	Interest of controlled corporation	79,815,000[(6)]	5.02%
Cheah Capital Management Limited	Interest of controlled corporation	79,815,000[(6)]	5.02%
Cheah Company Limited	Interest of controlled corporation	79,815,000[(6)]	5.02%
Hang Seng Bank Trustee International Limited	Trustee	79,815,000[(6)]	5.02%
Cheah Cheng Hye	Founder of a discretionary trust	74,237,000[(6)]	4.67%
	Beneficial owner	5,330,000	0.33%
	Interest of spouse	200,000[(7)]	0.01%
To Hau Yin	Interest of spouse	79,567,000[(7)]	5.00%
	Beneficial owner	200,000	0.01%

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. 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.

(6) These shares are held by Value Partners Limited, which is wholly-owned by Value Partners Hong Kong Limited, a wholly-owned subsidiary of Value Partners Group Limited. Cheah Capital Management Limited is wholly-owned by Cheah Company Limited which is in turn wholly-owned by Hang Seng Bank Trustee International Limited as the trustee of a discretionary trust of which Mr. Cheah Cheng Hye is the founder.

(7) Mr. Cheah Cheng Hye and Ms. To Hau Yin are husband and wife and they are deemed to be interested in the shares held by each other.

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 grantees to whom an option 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 date on which the securities of the Company were listed on the main board of the Stock Exchange (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.

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

	Number of share options							
Category/name of participants	Outstanding as at 1 January 2012	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 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			

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Throughout the Interim Period, the Company has complied with all the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012 and in the Corporate Governance Code since 1 April 2012 when the amendments to Appendix 14 to the Listing Rules became effective, except that:

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

(b) in respect of code provision A.6.7 of the Corporate Governance Code, a non-executive Director and two independent non-executive Directors were not in a position to attend the annual general meeting of the Company held on 11 May 2012 due to other commitments.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific enquiries to all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the Interim Period.

REVIEW OF INTERIM REPORT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company purchased a total of 8,660,000 Shares on the Stock Exchange for the year ended 31 December 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 as 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 Interim Period.

APPRECIATION

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

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

24 August 2012

As at the date of this report, the executive Directors are Mr. ZHANG Jun, Mr. WANG Tao (汪濤) and Mr. JI Min; the non-executive Directors are Ms. ZHANG Shuman, Datuk SYED HISHAM Bin Syed Wazir, Mr. YUAN Pengbin and Mr. LI Huaiqi; and the independent non-executive Directors are Mr. WANG Tao (王濤), Mr. LIU Qihua and Mr. LEE Siang Chin.