



海隆控股有限公司  
Hilong Holding Limited

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



# 2012 Interim Results Presentation

August 2012

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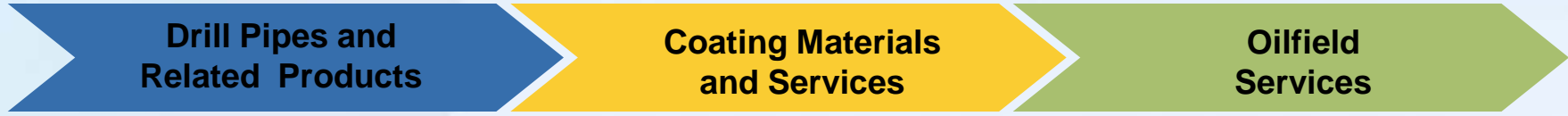
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# Hilong: A Leading Integrated Global Oilfield Equipment and Services Provider



## Vertically Integrated Business Segments Along the Value Chain



**Drill Pipes and Related Products**

**Products:**

- ▶ Drill pipe: the key drilling equipment used in exploration and production of oil, natural gas, unconventional gas ect, the most complex drilling tubular good
- ▶ Drill pipe components and others

**Market Position<sup>(1)</sup>:**

- ▶ #1 in China
- ▶ #2 globally

**Coating Materials and Services**

**Products & Services:**

- ▶ OCTG coating services
- ▶ OCTG coating materials
- ▶ Line pipe coating services
- ▶ Line pipe coating materials

**Market Position<sup>(1)</sup>:**

- ▶ #1 in China and #2 globally in OCTG coating materials and services
- ▶ #1 line pipe coating materials supplier in China

**Oilfield Services**

**Services:**

- ▶ Oilfield services with a focus on drilling: 10 sets of onshore drilling equipment engaged overseas
- ▶ Other services (cementing, OCTG trading & logistics)

**Market Position:**

- ▶ Well recognized by international oil majors, long term customers include Schlumberger, Shell and national oil companies of Ecuador

### Trusted Supplier to Major International Oil & Gas Companies



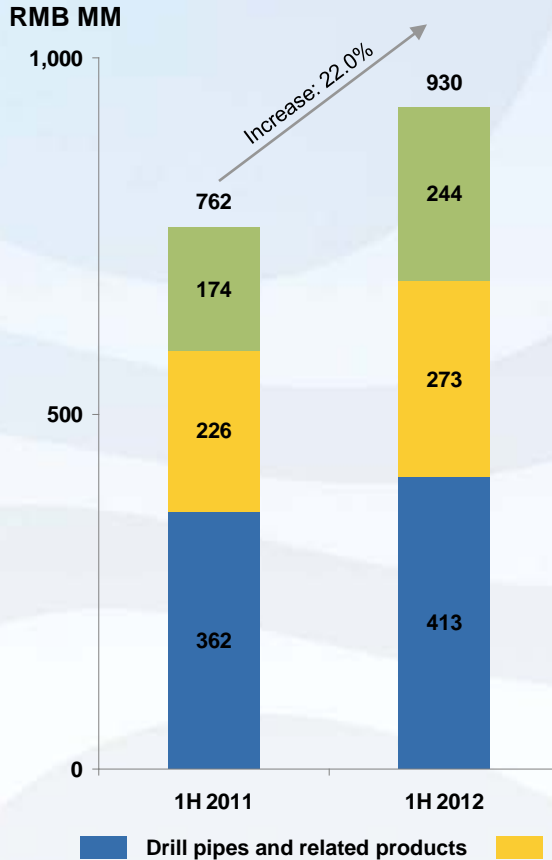
Note1: Source of the ranking is Spears & Associates, market shares are calculated based on 2011 sales



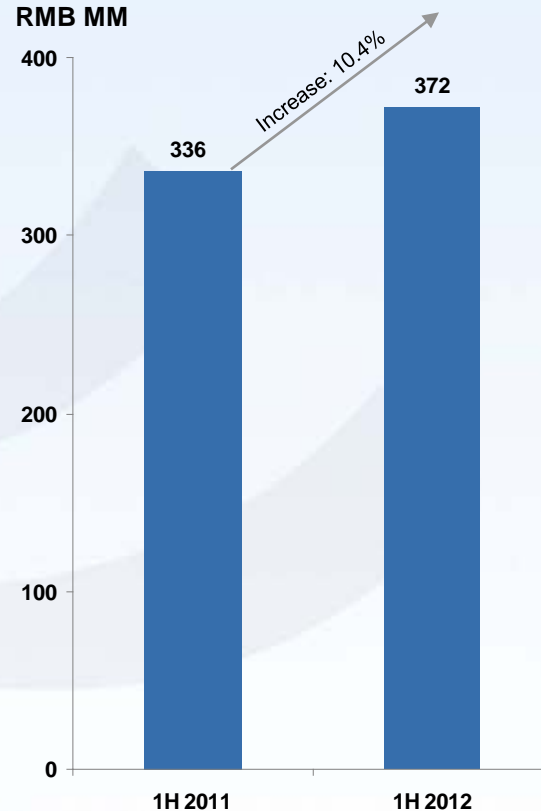
# 2012 Interim Results Highlights: Steady Growth of Revenue and Profits<sup>(1)</sup>



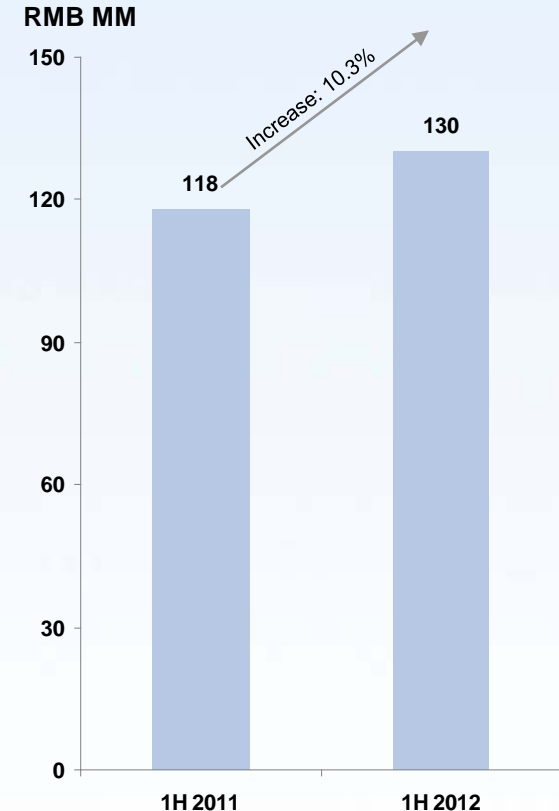
## Revenue



## Gross Profit



## Profit to Equity Owners



Note 1: 1H 2011 financial statements were restated due to the acquisition of Hilong USA, LLC. of 100% equity interests on 13 June 2012 from Hailong International. 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.

# Maintained Strong Profitability in Complicated Market Environment



- ❖ In the first half of 2012, the global economic environment was complex, the spot oil price and long term oil price expectation fluctuated
- ❖ Consequently, the price of drilling equipment were affected
  - ❖ Domestic guideline price for API standard drill pipes decreased reflecting the supply-demand dynamic and the falling raw material price
  - ❖ To expand presence in new international markets, such as Ukraine, we adjusted the selling price of drill pipes
- ❖ We made strong efforts to reduce costs adapting to the market condition, and maintained the overall gross margin of 40%
  - ❖ Upgraded production facility and improve production efficiency
  - ❖ Further implemented centralized raw materials procurement and integrated production
- ❖ Looking into the second half of the year, we expect solid growth in our business
  - ❖ Exploration and production are more active in the second half of the year, we expect stronger demand and higher portion of high-end products and services
  - ❖ The supporting policies in the PRC will also benefit our business, including the exploration and production of natural gas, shale gas, coal seam gas and other unconventional gas, as well as the construction of oil and gas transmission pipelines

# Steadily Executed Our Growth Strategies



- ❖ Continue to expand international footprint and to solidify leadership in China
  - ❖ Expansion of international markets
    - ◆ High end drill pipes, coating materials and services gradually penetrated overseas markets
    - ◆ Oilfield service teams working overseas is very well recognized and rewarded by customers
    - ◆ Acquired Hilong USA LLC.
  - ❖ Construction of overseas drill pipe and coating service plants
    - ◆ Drill pipe plant in Abu Dhabi has completed trial production and commenced mass production
    - ◆ Coating service plant located in Russia, near Yekaterinburg, has been almost completed and built satisfactory order book
    - ◆ Coating service plant in Edmonton, Canada is under construction
- ❖ Capacity upgrade and expansion
  - ❖ Upgraded the drill pipe production facility located in China to enhance our ability to produce high end products and to improve production efficiency
  - ❖ Finished the upgrade of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.
- ❖ Continue to focus on the R&D of high end products
  - ❖ Introduced series of new drill pipes and coatings for coal seam gas, deep water and highly corrosive drilling environment



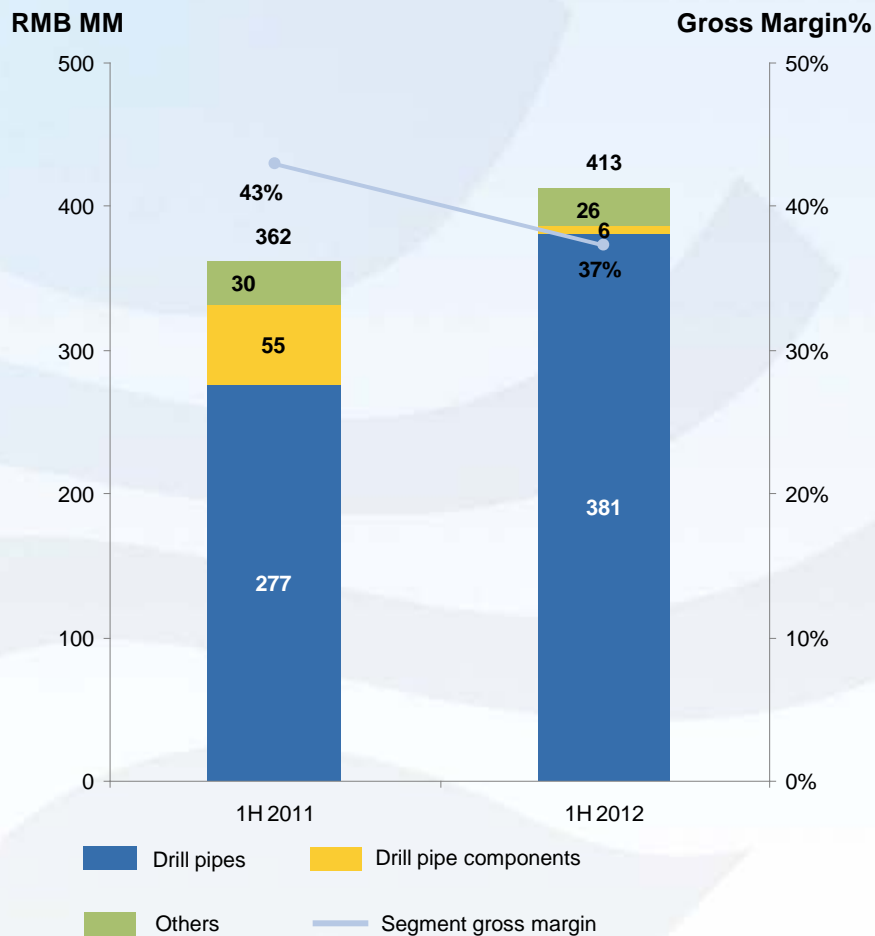


# Business Review

# Drill Pipes and Related Products



## Segment Revenue: +14% YoY



## Drill Pipe Analysis

	1H2011	1H2012	Change
Annual capacity (Ton)	40,600	50,600	24.6%
Utilization rate	51.6%	66.2%	28.3%
Sales volume (Ton)	10,470	16,745	59.9%
Domestic	4,629	9,330	101.6%
International	5,841	7,415	26.9%
ASP (RMB/Ton)	26,431	22,773	-13.8%
Domestic	27,196	23,326	-14.2%
International	25,825	22,076	-14.5%
Revenue (RMB MM)	277	381	37.8%
Domestic	126	218	72.9%
International	151	164	8.5%



# Drill Pipes and Related Products (Cont'd)



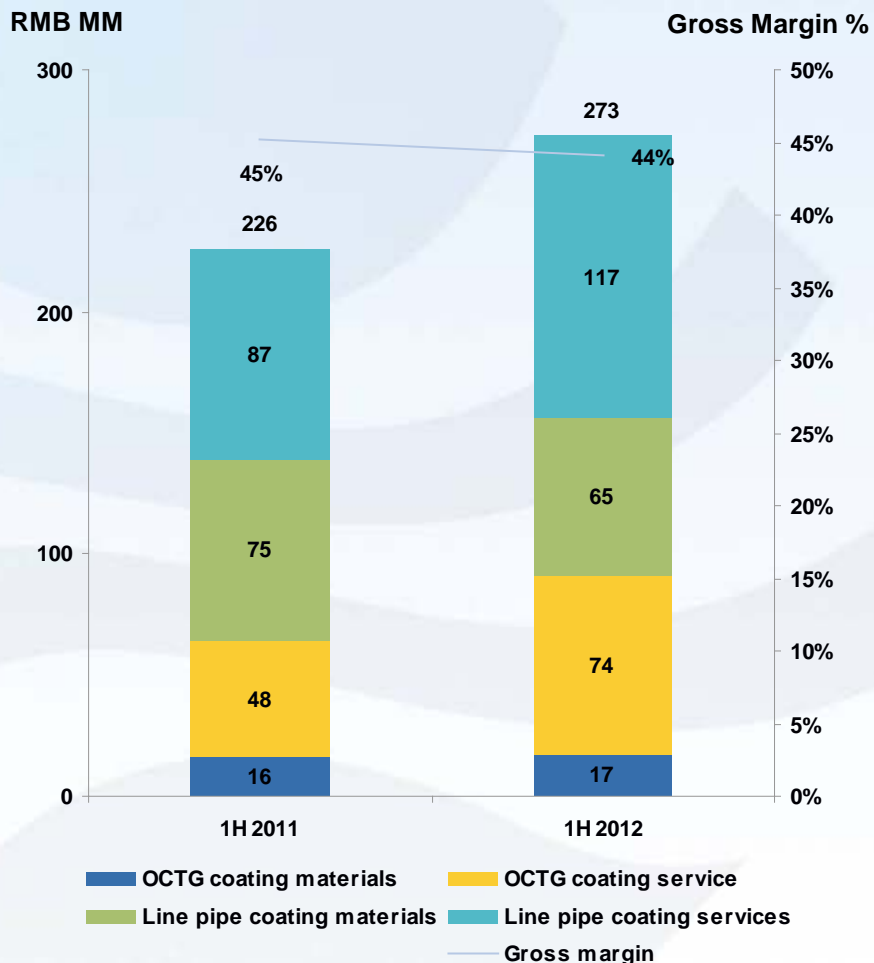
## Closely Followed Growth Strategies

- ❖ **Upgraded and adjusted the drill pipe production line in Shanghai**
  - ❖ Increased production efficiency and utilization rate through production facility upgrade and production process improvement
  - ❖ Extended product offerings from 9 meters long drill pipes to 14 meters
- ❖ **Continued international expansion**
  - ❖ Hilong Petroleum Pipe Ltd. the subsidiary we acquired in the end of 2011, has finished trial production and commenced mass production. It has passed the certification process of most of the key customers
  - ❖ New high end drill pipes and related products recognized overseas sales
  - ❖ Enhanced cooperation with domestic rig manufacturers, and sold drill pipes to the newly build rigs to be exported to South America markets
- ❖ **Continuously rolling out new high end products**
  - ❖ 8 5/8" drill pipe used in coal seam gas reserve circulation drilling, which sets the largest diameter specification for drill pipes produced in China
  - ❖ 5 7/8" drill pipe which is becoming the choice for ultra-deep wells, deep-water offshore drilling and extended reach wells
  - ❖ Sour service heavy-weight drill pipes and sour service drill pipe tool joints have passed various tests and recognized sales in Canada





# Coating Materials and Services



## Segment Revenue: +21% YoY



## Executed Growth Strategies

- 
 Increased the revenue contribution from OCTG coating materials and services, and line pipe coating services which generate higher margin. Reduced the sales of line pipe coating materials that generate lower margin. The segment gross margin bounced back from the second half last year which was 37%
- 
 Increase capacity for OCTG coating services which constrained the segment growth in the past
- 
 Focused on the R&D of high end products, and complex, large scale projects
- 
 Expand international markets

# Coating Materials and Services (Cont'd)



## OCTG Coating Materials and Services

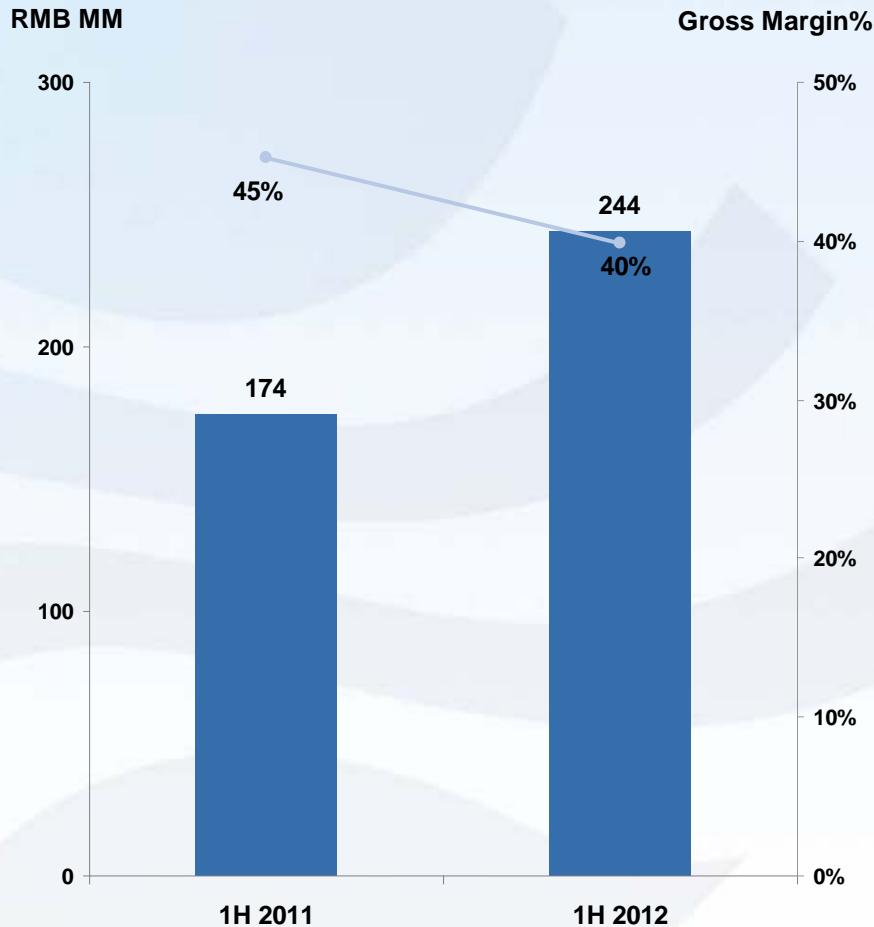
- ❖ Coating services capacity expansion is continued. Annual capacity at the end of 2011 was about 2.6 million meters, the newly added capacity include
  - ❖ Tianjin Tube-Cote finished the facility upgrade and will contribute annual capacity of about **800,000 meters**
  - ❖ Construction of the coating plant in Russia, near Yekaterinburg, has been almost completed. An annual capacity is about **600,000 meters**, and it is supplemented with hard banding and welding facilities. It is expected to start mass production in October
  - ❖ The construction of the OCTG coating service plant in Edmonton, Canada, is expected to be completed by the end of the year, and is anticipated to reach an annual capacity of about **600,000 meters**
- ❖ The new coating plants in Tianjin and Russia received satisfactory orders

## Line Pipe Coating Materials and Services

- ❖ Focused on complex, large scale projects, and expanded overseas market
- ❖ Continued rolling out new products and technologies
  - ❖ The alloy lined pipe, the technology we developed to protect the transmission pipes from wellheads to storage and transmission stations, realized export sales for the first time and was used for projects in Turkmenistan
  - ❖ 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
- ❖ Commenced the construction of the concrete weight coating project for offshore transmission pipes



## Segment Revenue: +40% YoY



## Well Recognized by Customers

- ❖ **10 sets of onshore drilling equipment are engaged in oilfield services overseas by high quality international customers**
  - ❖ Ecuador: two 2000HP rigs, one 650HP workover rig, and one oil pump
  - ❖ Nigeria: two 2000HP rigs
  - ❖ Kazakhstan: two 750HP rigs
  - ❖ Middle East: One 2000HP rig
  - ❖ Columbia: One 1500 HP rig
- ❖ **Highly recognized for superior work quality**
  - ❖ Renewed orders from international customers including Shell and Schlumberger
  - ❖ Entered Columbia market with a new rig engaged by SinoChem Group's local subsidiary
  - ❖ Kazakhstan and Nigeria teams were rewarded repeatedly performance based bonuses from our customers for their efficiency and premium work quality.



# Financial Performance

# Revenue: Strong Growth Across Segments



Revenue Increased by 22% YoY

RMB MM

1,000

800

600

400

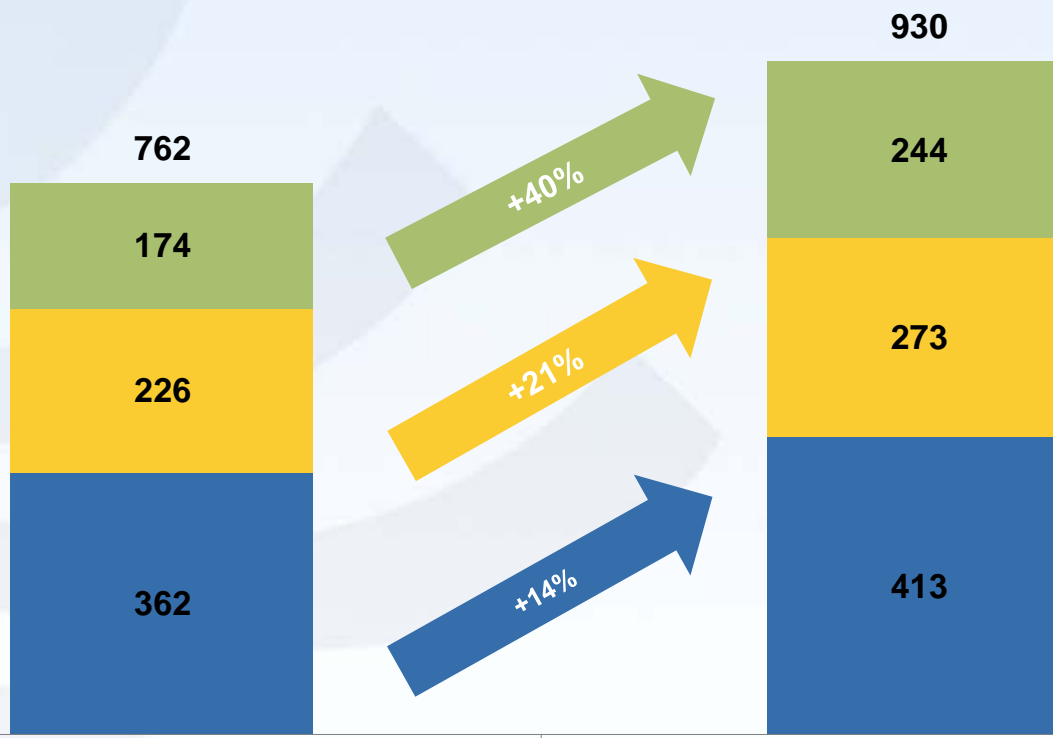
200

0

1H 2011

1H 2012

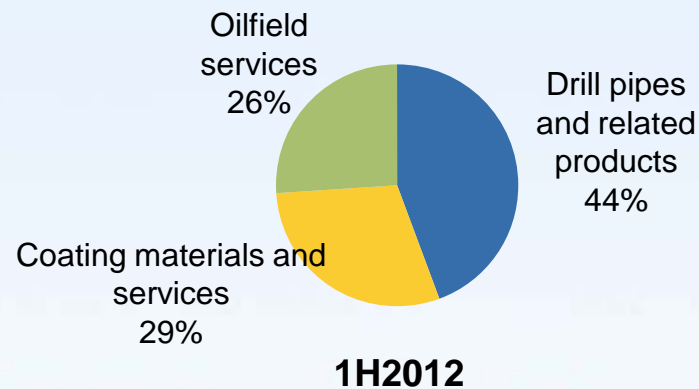
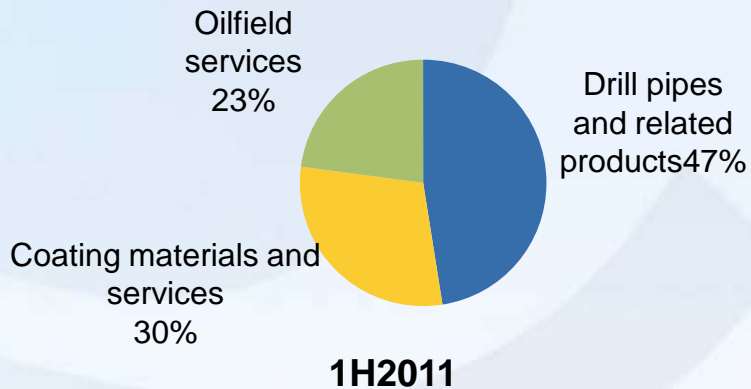
■ Drill pipes and related products ■ Coating materials and services ■ Oilfield services



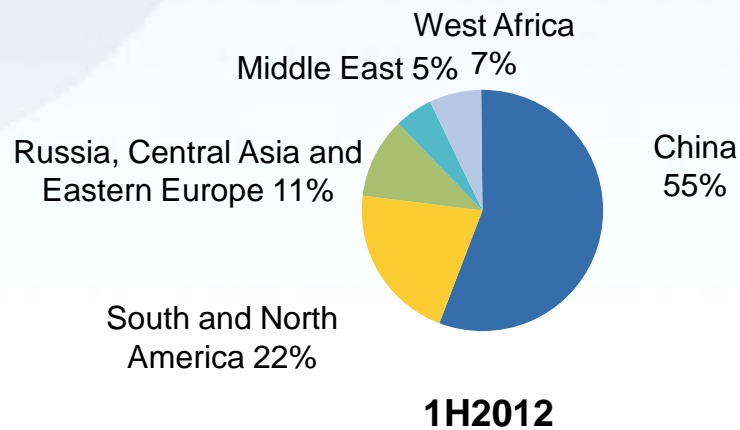
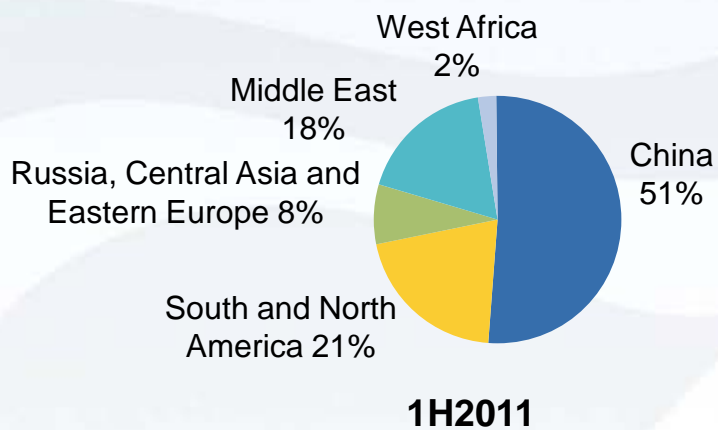
# Revenue Breakdown



## Revenue Breakdown by Products



## Revenue Breakdown by Geography

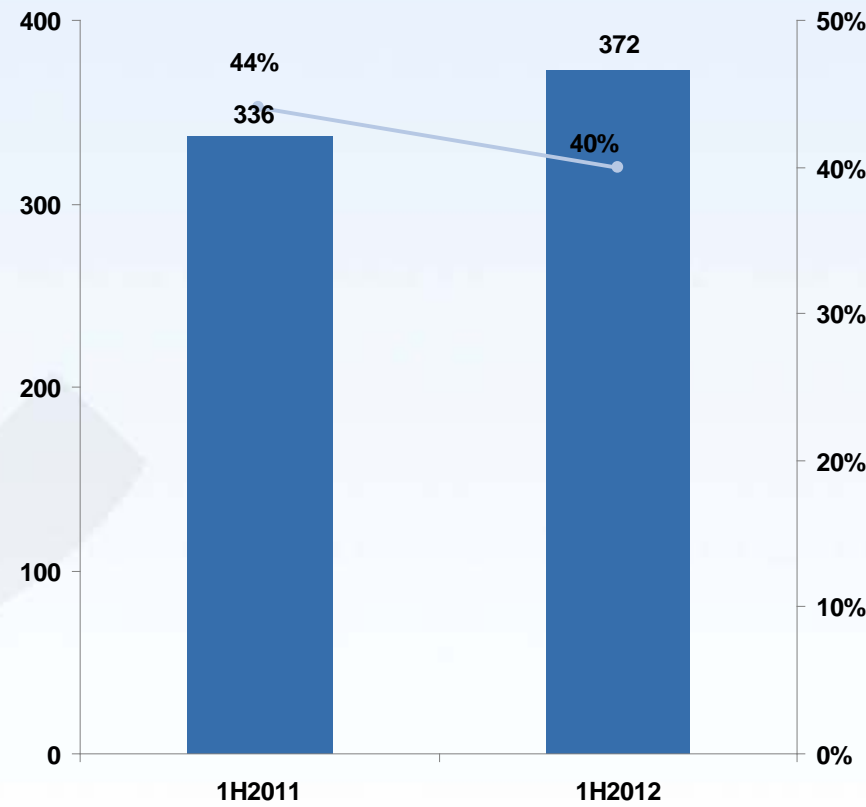
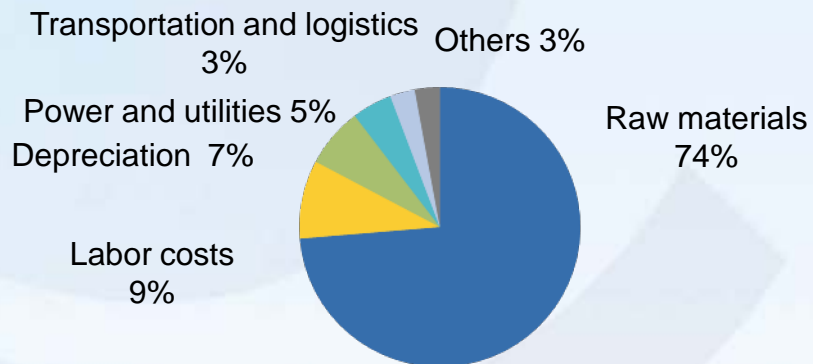


# Cost and Gross Profit Analysis

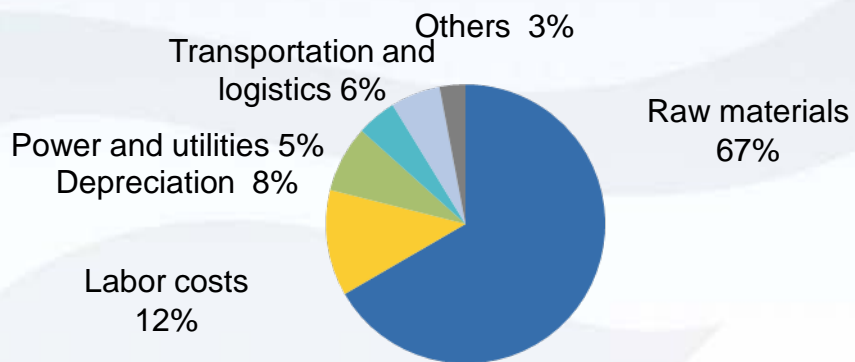


**1H 2011 Total Cost: 425MM**

**Gross Profit Increased by 10%**



**1H2012 Total Cost: 558MM**



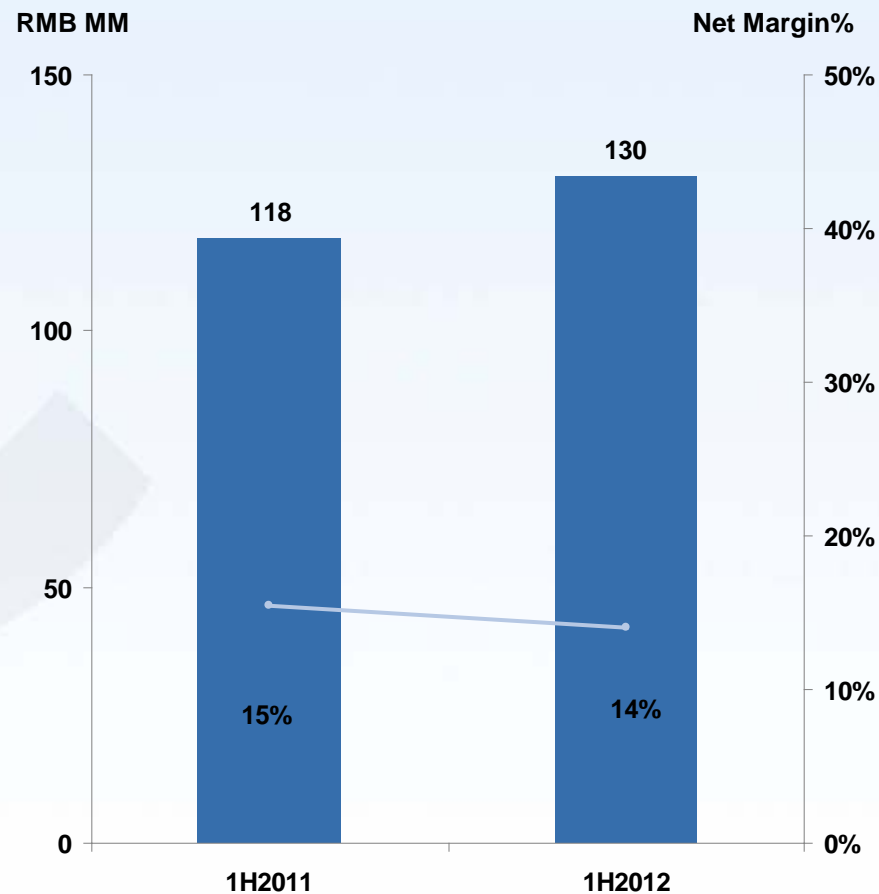
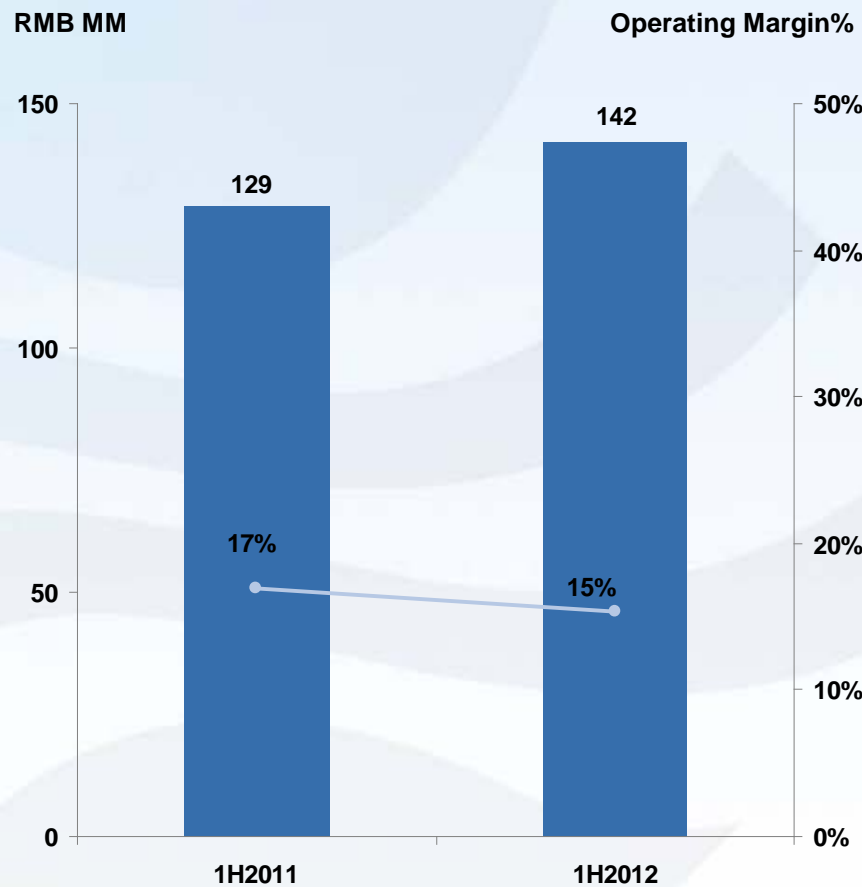


# Net Profit



Profit For the Period: +10%

Profit to Equity Owners: +10%



# Capital Structure and Return



## Capital Structure

RMB MM	2011	1H2012
Cash and Equivalent	326	248
Current Assets	2,205	2,249
Total Assets	3,577	3,849
Short-Term Debt	583	560
Long-Term Debt	179	298
Total Liabilities	1,539	1,756
Shareholders' Equity	1,860	1,904
Minority Interests	178	189
Total Equity	2,039	2,092

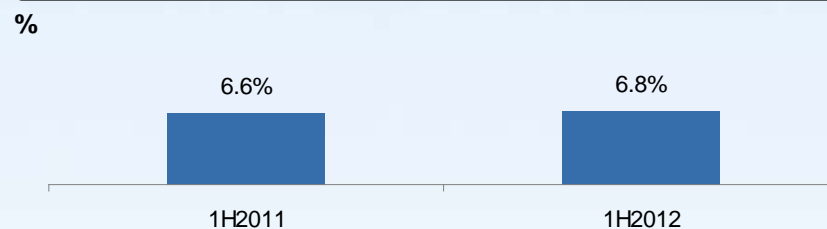
**Note:**

1: Net profit / ending balance of total assets

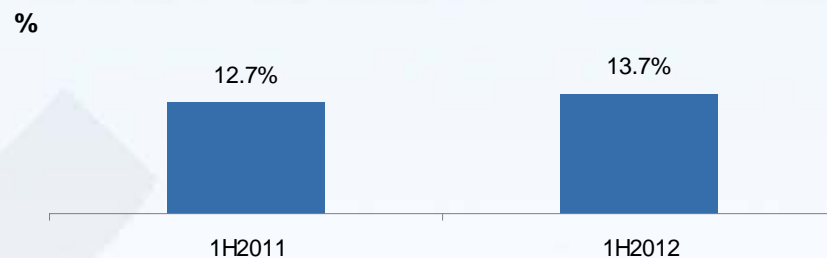
2: Net profit / ending balance of shareholders' equity

3: Net Debt = Long term debt + short term debt – cash and cash equivalent, total cap = shareholders' equity + minority interests + net debt

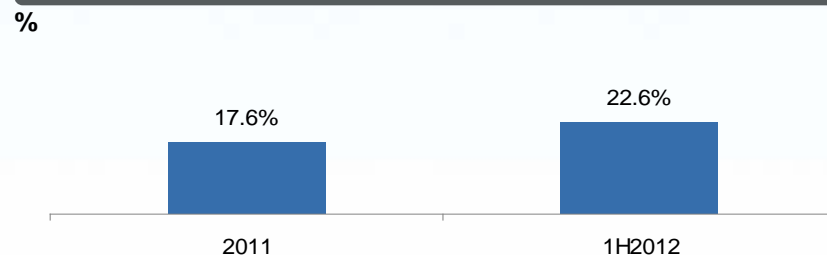
## Return on Assets<sup>(1)</sup>



## Return on Equity<sup>(2)</sup>



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



# Cashflow and Capital Expenditure



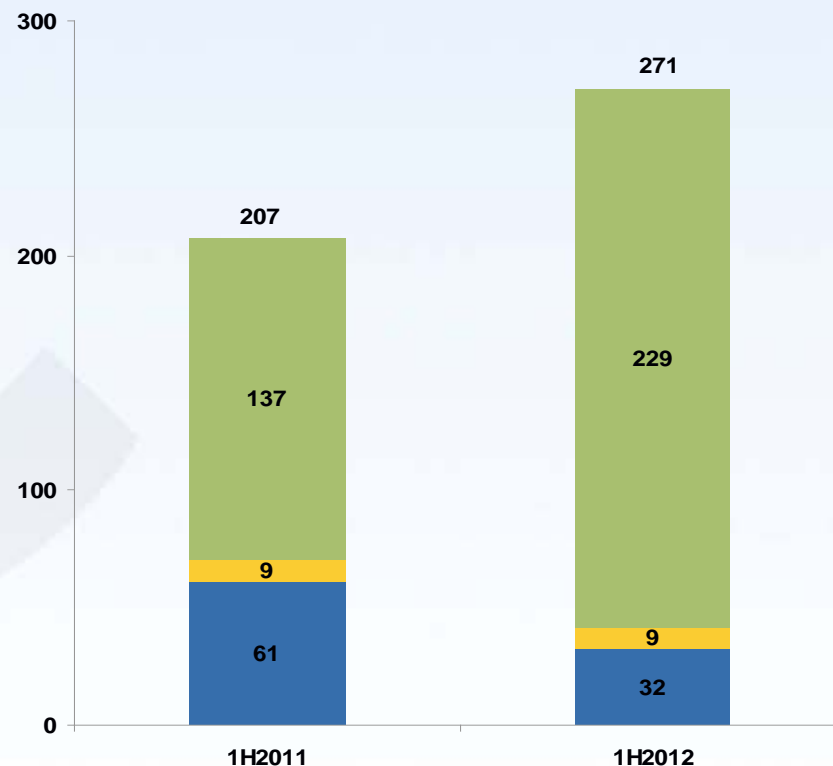
## Cashflow Statement Highlight

RMB MM

	1H2011	1H2012
<b>Operating cashflow</b>	<b>-40</b>	<b>111</b>
Investing cashflow	-321	-157
- Purchases of property, plant and equipment	-173	-161
Financing cashflow	339	-32
Net change in cash and equivalent	-21	-78
Ending balance of cash and equivalent	235	248

## Capital Expenditure

RMB MM



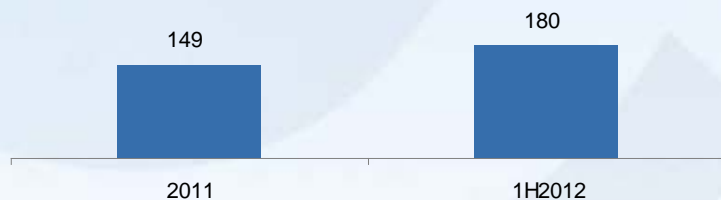
■ Drill pipes and related products 
 ■ Coating materials and services 
 ■ Oilfield services

# Liquidity and Turnover Days



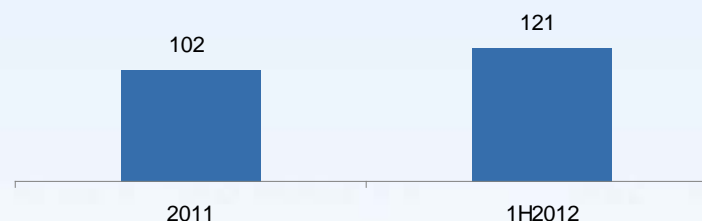
## Average Inventory Turnover Days<sup>(1)</sup>

%天

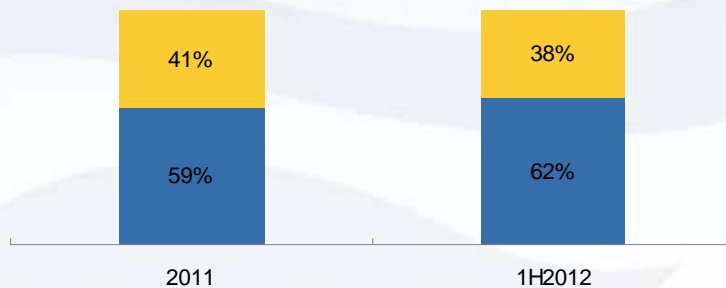


## Average Trade Payable Days<sup>(2)</sup>

Days

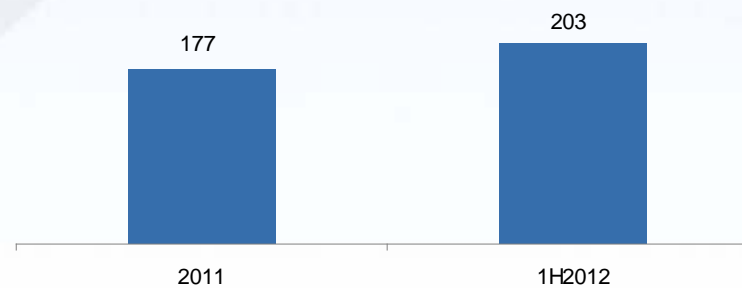


## Improving Trade Receivables Aging Structure



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

Days



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

# 2012 Second Half Outlook



## Maintain the Growth Momentum and Enhance Hilong's Competitiveness

### Drill Pipes and Related Products

- ▶ Continue to expand market shares overseas
- ▶ Continue to enhance our competitiveness in high end products
- ▶ Control costs through facility upgrade and further integration of production processes

### Coating Materials and Services

- ▶ Complete the construction of coating service plant in Canada
- ▶ Earn more high quality customers and orders on top of the existing orderbook
- ▶ Actively promote the corrosion resistance alloy lined pipe technology
- ▶ Complete the production facility construction for the concrete weight coating project for offshore transmission pipes

### Oilfield Services

- ▶ Strengthen regional management of the drilling equipment and teams
- ▶ Execute the two new drilling service contracts signed after the Interim Period with Schlumberger's local JV in Ecuador

### Group Management

- ▶ Enhance corporate governance, control administrative expenses
- ▶ Continue to improve working capital management