HILONG

海隆控股有限公司*

Hilong Holding Limited

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

ANNUAL REPORT 2011

* For identification purpose only

CONTENTS

CHAIRMAN'S STATEMENT

To the shareholders

I am pleased to present the annual report of Hilong Holding Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2011.

2011 was a key milestone year for the Group. Notwithstanding the considerably volatile market conditions, the Company managed to complete the global offering (the "Global Offering") and the listing (the "Listing") of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with the firm support of its investors. The successful Global Offering and Listing marked the Group's transformation from a private enterprise to a listed company, and its first step to tap into the international capital market. The Global Offering, which raised gross proceeds of HK$1,040 million, not only provided the Group with necessary financial supports for its development, more importantly, it evidenced the recognition from high quality international investors. Backed up by the strong supports from its investors and with access to the international capital market, the Group is well prepared on its way to achieving its long term goal of becoming the globally leading integrated provider of oilfield equipment and services.

YEAR UNDER REVIEW

During the year of 2011, the Group achieved significant growth in its financial results with a 34.3% increase in its revenue and a 69.1% increase in net profit attributable to equity owner as compared with 2010. The Company well executed its growth strategies by focusing on the development of high-end products, maintaining its leading position domestically and enhancing its market presence overseas. Moreover, the Group made major improvement in its brand recognition, research and development, corporate governance, and financing capabilities. The shareholders are invited to refer to the section headed "Management Discussion and Analysis" for details of business and financial review of the Group's performance in the year of 2011.

PROSPECTS

The economic development of the world will continue to drive the demand for oil and gas resources. The Group will closely follow the industry trend, so as to enhance its competitiveness and continue to move along the way to becoming a global leader of oilfield equipment and services.

The Group will continue to focus on the research and development of high-end products according to the changing demand of the industry and to increase the revenue contribution from high-end products. In addition to upgrading existing drill pipes and coating products, the Group also intends to introduce more innovative products that are able to lead to industry reforms. In the meantime, the Group will also speed up its international expansion, strengthen its overseas sales force and complete the construction of coating plants in Russia and Canada. The Group will work towards the goal of sustaining its leading position in China and acquiring additional market share in the international market. For the oilfield service segment, the Group will continue to pursue services contracts with high returns, and continue to enhance capabilities to provide comprehensive services.

The Company believes that it is going to maintain the growth momentum. The Company endeavors to provide better products and services to its customers, and to maximize returns for its shareholders.

APPRECIATION

On behalf of the board of directors of the Company (the "Board"), I would like to take this opportunity to extend my sincere gratitude to our shareholders, management team and staff. The growth of the Group would not have been possible without your support and contribution.

Zhang Jun
Chairman

Hong Kong
23 March 2012

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jun (張軍)
(Chairman and Chief Executive Officer)
Ms. Zhang Shuman (張姝嫚)
(Chief Strategy Officer)
Mr. Ji Min (紀敏)
(Chief Financial Officer)

Non-executive Directors

Datuk Syed Hisham Bin Syed Wazir
Mr. Yuan Pengbin (袁鵬斌)
Mr. Wang Tao (汪濤)
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 (汪濤)
Mr. Wang Tao (王濤)

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Ms. Zhang Shuman (張姝嫚)
(Chairlady of Nomination Committee)
Mr. Wang Tao (王濤)
Mr. Liu Qihua (劉奇華)

JOINT COMPANY SECRETARIES

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

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Guotai Junan Capital Limited

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
China Merchants Bank, Baoshan Branch

STOCK CODE

1623

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FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2011		2010	
	RMB'000	%	RMB'000	%
Drill pipes and related products				
– Drill pipes	730,192	40.1	633,797	46.7
– Drill pipe components	94,080	5.2	20,692	1.5
– Hardbanding	15,602	0.9	25,263	1.9
– Equipment	10,959	0.6	970	0.1
– Others	40,567	2.1	32,346	2.4
Subtotal	891,400	48.9	713,068	52.6
Coating materials and services				
Oil Country Tubular Goods ("OCTG")				
– Coating materials	37,139	2.0	27,675	2.0
– Coating services	112,976	6.2	101,474	7.5
Oil and gas line pipe				
– Coating materials	176,057	9.7	94,076	6.9
– Coating services	179,466	9.9	148,631	11.0
Subtotal	505,638	27.8	371,856	27.4
Oilfield services	424,156	23.3	271,538	20.0
Total	1,821,194	100.0	1,356,462	100.0

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

	Year ended 31 December			
	2011		2010	
	RMB'000	%	RMB'000	%
The People's Republic of China (the "PRC")	994,924	54.6	778,903	57.4
North and South America	361,072	19.8	250,801	18.5
Middle East	247,258	13.6	99,876	7.4
Russia and Central Asia	159,826	8.8	209,186	15.4
West Africa	42,638	2.3	–	–
Others	15,476	0.9	17,696	1.3
	1,821,194	100.0	1,356,462	100.0

Revenue increased by RMB464.7 million, or 34.3%, from RMB1,356.5 million in 2010 to RMB1,821.2 million in 2011. Such increase primarily reflected an increase in revenue from drill pipes and related products segment and oilfield services segment and, to a lesser extent, from the coating materials and services segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment increased by RMB178.3 million, or 25.0%, from RMB713.1 million in 2010 to RMB891.4 million in 2011. Such increase primarily reflected an increase in revenue derived from sales of drill pipes and sales of drill pipe components.

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

	Year ended 31 December	
	2011	2010
Sales of drill pipes		
– International market		
– volume (tons)	**12,582**	10,550
– unit price (RMB/ton)	**25,244**	25,842
Subtotal (RMB'000)	**317,633**	272,630
– Domestic market		
– volume (tons)	**14,549**	14,469
– unit price (RMB/ton)	**28,356**	24,961
Subtotal (RMB'000)	**412,559**	361,167
Total (RMB'000)	**730,192**	633,797

Revenue from sales of drill pipes in the international market increased by RMB45.0 million, or 16.5%, from RMB272.6 million in 2010 to RMB317.6 million in 2011. The increase primarily reflected a 19.3% increase in the volume of drill pipes sold from 10,550 tonnes in 2010 to 12,582 tonnes in 2011, while average selling price of drill pipes sold in the international market remained stable in the two years. The increase in the sales volume primarily reflected the Group's continuous effort to increase its international market share, especially in the Middle East and North and South America, and an increased level of capital spending by international oil and gas companies in drilling activities as a result of the generally higher level of oil prices in 2011 as compared to 2010.

Revenue from sales of drill pipes in the PRC market increased by RMB51.4 million, or 14.2%, from RMB361.2 million in 2010 to RMB412.6 million in 2011. The increase primarily reflected a 13.6% increase in the average selling price in the PRC market, while the volume of drill pipes sold in the PRC market remained stable. The increase in the average selling price primarily reflected the Company's increasing focus on the development and marketing of non-American Petroleum Institute drill pipe products, which are generally sold at a higher price as compared to American Petroleum Institute ("API") drill pipe products.

Revenue from sales of drill pipe components increased by RMB73.4 million, from RMB20.7 million in 2010 to RMB94.1 million in 2011. The increase reflected the increase in volume of steel pipes and joints sold to the Group's jointly controlled entity in the Middle East, which commenced its manufacturing in 2011, as its principal raw material for manufacturing drill pipes.

Coating materials and services. Revenue from the coating materials and services segment increased by RMB133.8 million, or 36.0%, from RMB371.9 million in 2010 to RMB505.6 million in 2011. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating material and service businesses.

The increase in revenue from oil and gas line pipe coating materials reflected a 97.1% increase in volume from 8,615 tonnes in 2010 to 16,982 tonnes in 2011, partially offset by a 5.1% decrease in the average selling price in 2011 in comparison with that in 2010. The increase in the sales volumes primarily reflected an increased level of capital spending by oil and gas companies in the PRC in oil and gas line construction activities which led to an increased level of capital spending on the Group's coating materials.

The increase in revenue from oil and gas line pipe coating services primarily reflected an increase in the Group's capacity in providing oil and gas line pipe coating services coupled with a higher demand for the services, partially offset by a decrease in the average selling price in 2011 in comparison with that in 2010.

Oilfield services. Revenue from the oilfield services segment increased significantly by RMB152.7 million from RMB271.5 million in 2010 to RMB424.2 million in 2011. Such increase was attributable to the oilfield service projects in West Africa, the Middle East and Ecuador from which the Group started to generate revenue during the first half of 2011. The increase also reflected the increase in revenue derived from the sale of tubing and casing products purchased from third parties to clients in Ecuador, as a result of the Group's continuous effort to increase trading activities in that market.

Cost of Sales/Services

Cost of sales increased by RMB274.7 million, or 34.3%, from RMB799.9 million in 2010 to RMB1,074.6 million in 2011. Such increase primarily reflected an increase in cost of raw materials associated with the increase in revenue from the drill pipes and related products segment and the coating materials and services segment, coupled with the increasing purchase volume of oil and gas tubing and casing products from third party manufacturers for sale to clients in Ecuador in 2011.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit increased by RMB190.0 million, or 34.1%, from RMB556.6 million in 2010 to RMB746.6 million in 2011. Gross margin remained stable at 41.0% in 2011 in comparison with that in 2010, primarily reflecting an increase in gross margin from drill pipes and related products segment, which was offset by a decrease in gross margin from coating materials and services segment.

Gross margin of drill pipes and related products segment increased from 36.7% in 2010 to 41.7% in 2011, reflecting (i) an increased portion of procurement of steel pipes from Nantong Hilong Steel Pipe Co., Ltd., an associated entity in which the Company owns 41% of equity interest and which offers favorable pricing terms to the Group as compared to other third party suppliers in 2011; (ii) the fact that in 2011, the Group utilized some long-aged raw materials and semi-products to meet the market demand, which led to the reversal of the provision for these inventories amounting to RMB10.2 million; and (iii) an increased portion of revenue derived from non-API drill pipe products, which generally yielded higher margin as compared to API drill pipe products.

Gross margin of coating materials and services segment decreased from 50.3% in 2010 to 40.8% in 2011. The decrease was primarily attributable to (i) a higher portion of revenue derived from line pipe coating materials in 2011, which generally yielded lower gross margin; (ii) an increase of price of the petro-chemical materials, which is the major component of the line pipe coating materials; and (iii) a decrease of selling price of oil and gas line pipe coating materials and services.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB30.4 million, or 38.5%, from RMB79.0 million in 2010 to RMB109.5 million in 2011. Such increase primarily reflected an increase in transportation expenses incurred for the sale of drill pipe components to the jointly controlled entity in the Middle East and an increase in transportation expenses associated with the sale of oil and gas tubing and casing products to clients in Ecuador in 2011, coupled with increasing sales commission and staff's travelling and lodging expenses associated with the increase in sales.

Administrative Expenses

Administrative expenses increased by RMB68.8 million, or 39.9%, from RMB172.2 million in 2010 to RMB241.0 million in 2011. Such increase primarily reflected (i) expenses of RMB23.1 million incurred in connection with the Global Offering and Listing; (ii) an increase in research and development expenses incurred in the drill pipes and related products segment and coating materials and services segment; (iii) share-based compensation expenses in relation to the share options granted to the directors of the Company (the "Directors"), senior management and other employees pursuant to the Pre-IPO share option scheme of the Company as disclosed in the Company's prospectus dated 11 April 2011 (the "Prospectus"); and (iv) an increase in staff costs and other related administrative expenses incurred in connection with the expansion of our oilfield services segment.

Other Income

The Group incurred other income of RMB34.1 million in 2011 (2010: nil), reflecting gains on remeasuring our existing equity interest in Almansoori Hilong Petroleum Pipe Company (legal name changed to Hilong Petroleum Pipe Company subsequent to the completion of the acquisition), Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. and CNOOC Tube-Cote Tianjin Pipe Co., Ltd. (legal name changed to Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. subsequent to the completion of the acquisition) held upon our acquisition of controlling interest in these entities in 2011.

Other (Losses)/Gains – Net

The Group recognized a net gain of RMB15.1 million in 2010 and a net loss of RMB9.2 million in 2011. The net loss recognized in 2011 primarily reflected RMB19.4 million in exchange losses, which was partially offset by a net gain of RMB12.8 million in government grants in relation to our new and high-technology projects. The net gain recognized in 2010 primarily reflected (i) RMB8.0 million in government grants in relation to our new and high-technology projects; (ii) RMB5.4 million in negative goodwill (or the difference between the consideration and fair value of net asset acquired) recognized in connection with our acquisition of 45% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. in September 2010; and (iii) RMB3.0 million in changes in the fair value for Series A convertible preferred shares.

Finance Costs

Finance costs increased by RMB16.3 million, or 53.4%, from RMB30.5 million in 2010 to RMB46.7 million in 2011. Such increase primarily reflected (i) an increase in interest expenses on bank borrowings, including RMB6.0 million interest in relation to a bank borrowing which the Company repaid upon the Listing; (ii) an accretion of interest of RMB6.5 million in relation to the liability component of Series A preferred shares of the Company using effective interest method. Such Series A preferred shares were fully converted to ordinary shares upon the Listing; and (iii) an increased level of market interest rate on bank borrowings in 2011.

Share of Results of Jointly Controlled Entities

The Group's share of losses of jointly controlled entities decreased by RMB10.0 million, or 59.7%, from RMB16.8 million in 2010 to RMB6.8 million in 2011. The decrease reflected a decrease in losses incurred by Almansoori Hilong Petroleum Pipe Company as it commenced its manufacturing in 2011.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB275.2 million in 2010 to RMB364.6 million in 2011.

Income Tax Expense

Income tax expense remained stable in 2011 in comparison with that in 2010. Our effective tax rate was approximately 16.5% in 2010 and 12.4% in 2011. The decrease was primarily due to unrecognized deferred income tax liabilities for the withholding tax that would not be payable on the unremitted earnings of certain PRC subsidiaries in 2011.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company for the year increased from RMB178.4 million in 2010 to RMB301.7 million in 2011.

Inventories

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Inventory	**509,510**	365,522
Turnover days of inventory (in days)[1]	**149**	160

[1] Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365.25 for each of the years ended 31 December 2010 and 2011. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The decrease in inventory turnover days from 160 days in 2010 to 149 days in 2011 primarily reflected an increase in recognized cost of sales associated with an increase in sales in 2011.

Trade and Other Receivables

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Trade receivables		
– Due from third parties	**968,580**	710,648
– Due from related parties	**59,350**	55,025
Less: provision for impairment of receivables	**(11,033)**	(11,033)
Trade receivables – net	**1,016,897**	754,640
Other receivables		
– Due from third parties	**43,854**	39,199
– Due from related parties	**55,740**	297,072
Other receivables	**99,594**	336,271
Bills receivable	**31,878**	5,727
Prepayments	**164,514**	83,110
Trade and other receivables – net	**1,312,883**	1,179,748

Trade receivables

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 gross trade receivables for the years indicated.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**602,677**	444,062
– Over 90 days and within 180 days	**213,645**	202,662
– Over 180 days and within 360 days	**109,046**	50,981
– Over 360 days and within 720 days	**75,107**	37,369
– Over 720 days	**27,455**	30,599
	1,027,930	765,673
Turnover days of trade receivables[1]	**180**	187

[1] Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365.25 for each of the years ended 31 December 2010 and 2011. Average trade receivables equal balance of trade receivables at the beginning of the year plus balance at the end of the year, divided by two.

The credit period generally granted to customers is between 30 to 270 days. The decrease in trade receivables turnover days from 187 days in 2010 to 180 days in 2011 primarily reflected (i) a significant increase in sales in 2011 as compared to 2010, and (ii) the Group's continuous effort to speed up the timing of receivable settlements.

As at 31 December 2010 and 2011, trade receivables of RMB310.6 million and RMB414.2 million, representing 40.6% and 40.3% respectively, of the Group's trade receivables before impairment remained unpaid beyond the allowed 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 related party entities. As at the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

Other receivables

Other receivables primarily consist of other receivables due from related parties, staff advance and value added tax refund. The following table sets forth the components of other receivables outstanding as at the dates indicated.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Due from related parties	**55,740**	297,072
Staff advance	**14,221**	8,349
Value added tax refund	**11,074**	21,693
Due from non-controlling interests	**6,000**	–
Others	**12,559**	9,157
	99,594	336,271

Receivables due from the subsidiaries of the controlling shareholders as at 31 December 2010 have been settled by the end of June 2011. As a result, other receivables decreased significantly as at 31 December 2011. The balance of other receivables due from related parties as at 31 December 2011 primarily includes amounts due from the associates of the Group and the jointly controlled entities of the Group.

Staff advance represents cash advances to the staff for their travel expenses. The increase in the balance of staff advance from 31 December 2010 to 31 December 2011 reflected the increasing sales and marketing efforts, and the expanding sales activities incurred overseas for the oilfield services segment. Value added tax refund recognized as at 31 December 2010 and 2011 represented the refund made in connection with the export of drilling equipments in the oilfield services segment.

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 payables, accrued taxes other than income tax and dividends payable. The following table sets forth the components of trade and other payables outstanding as at the dates indicated.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bills payable	**103,195**	98,176
Trade payables:		
– Due to related parties	**10,135**	41,256
– Due to third parties	**312,406**	239,797
Other payables:		
– Due to related parties	**33,900**	319,301
– Due to third parties	**44,331**	67,759
Staff salaries and welfare payables	**32,328**	10,098
Advance from customers	**39,448**	96,084
Interest payables	**1,764**	475
Accrued taxes other than income tax	**28,373**	23,820
Dividends payable	**13,078**	51,852
Other liabilities	**2,320**	4,804
	621,278	953,422

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 years indicated.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables, gross		
– Within 90 days	**220,953**	195,316
– Over 90 days and within 180 days	**20,940**	26,855
– Over 180 days and within 360 days	**19,739**	1,694
– Over 360 days and within 720 days	**13,526**	5,411
– Over 720 days	**47,383**	51,777
	322,541	281,053
Turnover days of trade payables[1]	**103**	110

[1] Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365.25 for each of the years ended 31 December 2010 and 2011. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2010 to 31 December 2011 reflected the procurement of the drilling rigs.

As at 31 December 2011, long aging trade payables primarily included (i) warranty retention money related to procurement of equipments and construction of facilities, (ii) payables due to the Group's related parties, and (iii) payables due to non-controlling interest.

Other payables due to the subsidiaries of the controlling shareholders as at 31 December 2010 have been settled by the end of June 2011, as a result of which other payables decreased significantly as at 31 December 2011.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

In April 2011, the Company completed the Global Offering (for details, please refer to the Prospectus) and was successfully listed on the Main Board of the Stock Exchange. Net proceeds from the Global Offering were approximately HK$954 million. As at 31 December 2011, the Group had utilized approximately HK$902 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 31 December 2011 is summarized in the following table:

	Planned at the Global Offering HKD in million	**Used in 2011** HKD in million	**Residual balance as at 31 December 2011** HKD in million
Gross proceeds from the Global Offering	1,040		
Net proceeds after expenses	954		
Expansion of coating materials and service	229	187	42
Expansion of oilfield service	224	219	5
Repayment of outstanding balances due to controlling shareholder	189	189	–
Repayment of bank borrowings	165	165	–
Upgrading of production capacity for drill pipes	95	90	5
Working capital and general corporate purpose	52	52	–
Total	954	902	52

BUSINESS REVIEW

2011 was a milestone year for the Group. During the year, the Group achieved significant growth in its financial results with a 69.1% increase in net profit attributable to equity owner. Moreover, the Group also sought major improvement in its brand recognition, research and development, corporate governance, and financing capabilities. The Company well executed its growth strategies by focusing on the development of high-end products, maintaining its leading position domestically and enhancing its market presence overseas. In 2011, the Group moved forward towards its goal of becoming the integrated global leader of oilfield equipment and services.

1. Drill pipes and related products:

As the largest revenue contributing segment, drill pipes and related products maintained the strong growth momentum. The Group sold 27,131 tonnes of drill pipes during the year and recognized revenue of approximately RMB891 million for this segment, representing a 25.0% growth from 2010. On one hand, the Group steadily maintained its leading position in domestic market and sold 14,549 tonnes of drill pipes. Sales of drill pipes in China amounted to approximately RMB413 million, representing a market share of 34% of the domestic drill pipe market[(1)]. On the other hand, the Group successfully expanded in overseas market, selling 12,582 tonnes of drill pipes, and recognized revenue of approximately RMB318 million, representing an increase of 16.5% as compared with 2010. The Company not only retained its existing international customers of great quality, but also further enhanced its brand recognition and acquired additional well-known customers, such as Shell, Saipem, National Drilling Company and Noble Drilling. Based on 2011 sales, the Group ranked second in the global drill pipe market with a market share of 13%[(1)].

Note 1: According to Spears & Associates Inc.

The profitability of the drill pipe segment also improved as compared with 2010. In terms of product mix, the Group further increased the portion of high-end products. High-end, non-API drill pipes contributed 21% to the segment revenue, as compared with 16% in 2010. The research and development of high-end products by the Group closely aligned with the market trend and the requirements of the customers. The drill pipes for shale gas exploration, the V150 high strength drill pipe for ultra-deep wells, and the large caliber drill pipes for horizontal directional drilling were all first developed in China, and were well received immediately after their launch and the favor of clients converted to sales orders. The success of the new products further testified the Group's leading position in the industry, and also evidenced that the Company's research and development team correctly captured the industry trend. With respect to costs, Hilong further demonstrated the advantages of being an integrated player on the value chain. As Nantong Hilong Steel Pipe Co., Ltd., an associate of the Group, continued to grow, the steel pipes procured from this associate, as key raw material for drill pipes production, accounted for 65% of the total procurement. As a result, the Group has gained better control on the product quality and improved gross margin due to the lower costs.

In terms of production capacity, the Group further upgraded the existing facilities in China that have an annual production capacity of 40,600 tonnes of drill pipes. In addition, the Group, through a nominee, acquired an additional 51% equity interests in Almansoori Hilong Petroleum Pipe Company in December 2011 and obtained effective control of all of its issued share capital. Almansoori Hilong Petroleum Pipe Company is located in Abu Dhabi, which has a production capacity of 10,000 tonnes of drill pipes per annum. Due to its strategic location, it enjoys the proximity to the customers in the Middle East and adjacent regions, and also enjoys lower costs. This acquisition is an important step to implement the Company's overseas expansion strategy.

2. Coating materials and services

In 2011, the coating materials and services business segment also achieved strong growth and recorded revenue of RMB505.6 million, representing an increase of 36.0% as compared with 2010. In particular, there has been rapid growth in the line pipe coating business. In terms of market share, the Group continued to maintain its leading position in China in OCTG coating materials and services sector, with a market share of 72%, based on 2011 revenue[(1)], and ranked second worldwide with a 14% of market share[(1)]. At the same time, the Group maintained its top position in line pipe coating materials in China with a 53% market share[(1)].

During the past few years, the insufficient capacity of coating services had been the bottleneck of this segment. In 2011, the line pipe coating service plant in Taicang commenced operation in June with a capacity of over 1,500,000 square meters per annum, leading to an increase of the annual service capacity to 4,300,000 square meters per annum. For OCTG coating services, the construction of plants in Russia and Canada progressed on schedule, and is expected to start contributing capacity around mid-year 2012.

In terms of research and development, the Company applied for 9 patents at state level in 2011, and got successful approval for 7 patents, which was the highest in history. The newly developed coating products are very well received by customers as they are adapted to industry requirements and of high quality.

3. Oilfield services

The Group's drilling rigs and equipment increased from 7 sets in 2010 to 9 sets in 2011, and all of them are engaged overseas to provide oilfield services onshore with a focus on drilling services. There are three drilling rigs and an oil pump in Ecuador, two drilling rigs in Nigeria, two drilling rigs in Kazakhstan and one drilling rig in Iraq. The oilfield services segment recorded revenue of RMB424.2 million for 2011, representing an increase of 56.2% as compared with last year.

Note 1: According to Spears & Associates Inc.

In 2011, the oilfield services segment of the Group further tapped into the high-end customers' market. The 2000HP drilling rig working on Shell's project at Nigeria commenced drilling in August, and the project was highly recognized by the customer for its outstanding service quality. Consequently, the Company received a second order from Shell to engage one additional 2000HP rig in Nigeria to provide drilling services. In December, a 2000HP drilling rig of the Group commenced drilling under the service contract signed with Schlumberger to jointly provide service to the national oil company of Ecuador. It only took 59 days for the new drilling rig to depart from China and commence drilling, which set a series of new records for Chinese drilling rigs in Ecuador, including the fastest clearance, transport, completion of lifting a mast substructure and start-up for a new drilling rig. The outstanding performance of the Group's drilling rigs enhanced its reputation among the customers in the international market, and also improved the brand awareness of Hilong in the world as a whole.

With drilling services as the fundamental, the oilfield services segment broadened the Group's revenue source from more comprehensive services. The cementing team of the Group commenced cementing services from early September in KOR oilfield in Kazakhstan. At the end of the year, the team completed cementing services for five wells that all passed quality inspections, and one of the wells, the KOR-112, rated 75% in the quality test which set the best record in KOR oilfield. In addition, the trading and logistics services also contributed to the revenue increase.

4. Research and development

Innovation driven research and development is a key growth driver to the Group. The Group's dedicated research and development team with 105 members has developed a series of proprietary technologies and products based on 65 patents as well as a full suite of chemical formulas for coating materials, and there are 57 patents applications under process. The research and development team had a fruitful year in 2011. The newly developed products were not only well received by customers, but also supported and awarded by the government and industry associations. Deep-water drill pipe project passed the open reply of the National 863 Program. The Group's research staff won a number of personal awards such as Shanghai Leading Technology Talent and Rising Star of Technology. The Academy Work Station of the Group was awarded the National Leading Academy Work Station. A number of products received awards granted by industry associations at the state and the municipal levels. The Company has always placed emphasis on research and development. Going forward, the Group will continue to focus on the research and development of high-end products that are adapted to industry requirements.

5. Expanded financing channels and enhanced corporate governance since the Listing

The Company successfully listed on the Main Board of the Stock Exchange in April 2011 despite the volatile market condition in the first half of 2011, attracted lots of high quality investors and raised gross proceeds of HK$1,040 million. The Listing not only provided financial supports to the Company's future development, but also accelerated its growth from a private enterprise in China to a global leader of oilfield equipment and services. In December 2011, the Company announced the issue of HK$233 million three-year convertible bonds to CITIC Capital China Access Fund Limited ("CITIC Capital"). The proceeds further prepared the Company for its development in the coming years. As a listed company, the Company also improved significantly in terms of corporate governance with more efficient and transparent management.

PROSPECTS

The economic development of the world will continue to drive the demand for oil and gas resources. The Group will closely follow the industry trend, so as to enhance its competitiveness and continue to move along the way to becoming a global leader of oilfield equipment and services.

The Group will continue to focus on the research and development of high-end products according to the changing demand of the industry and to increase the revenue contribution from high-end products. In addition to upgrading existing drill pipes and coating products, the Group also intends to introduce more innovative products that can lead to industry reforms. In the meantime, the Group will also speed up its international expansion, strengthen its overseas sales force and complete the construction of coating plants in Russia and Canada. The Group will work towards the goal of sustaining its leading position in China and acquiring additional market share in the international market. For the oilfield service segment, the Group will continue to pursue services contracts with high returns, and continue to enhance capabilities to provide comprehensive services.

The Company believes that it is going to maintain the growth momentum. The Company endeavors to provide better products and services to its customers, and to maximize returns for its shareholders.

LIQUIDITY AND CAPITAL RESOURCES

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net cash from operating activities	**80,500**	163,341
Net cash used in investing activities	**(478,229)**	(165,862)
Net cash from financing activities	**480,956**	108,391
Net increase in cash and cash equivalents	**83,227**	105,870
Exchange losses on cash and cash equivalents	**(7,734)**	(537)
Cash and cash equivalents at beginning of the year	**246,936**	141,603
Cash and cash equivalents at end of the year	**322,429**	246,936

Operating Activities

Net cash provided by operating activities in 2011 was RMB80.5 million, which was primarily attributable to (i) net profit of RMB319.6 million; and (ii) adjustment for depreciation of property, plant and equipment of RMB80.1 million, partially offset by (i) an increase in trade and other receivables of RMB96.2 million; (ii) a decrease of trade and other payables of RMB162.4 million; and (iii) adjustment for gains on remeasuring our existing equity interest upon our acquisition of controlling interest in certain entities of RMB34.1 million.

Net cash provided by operating activities in 2010 was RMB163.3 million, which was primarily attributable to (i) net profit of RMB229.9 million; (ii) increase in trade and other payables of RMB179.6 million; and (iii) adjustment for depreciation of property, plant and equipment of RMB55.7 million; partially offset by an increase in trade and other receivables of RMB260.6 million.

Investing Activities

Net cash used in investing activities in 2011 was RMB478.2 million, which was primarily attributable to payment of RMB281.1 million in purchase of property, plant and equipment and payment of RMB108.4 million in connection with the acquisition of non-controlling interests.

Net cash used in investing activities in 2010 was RMB165.9 million, which was primarily attributable to RMB144.7 million in purchase of property, plant and equipment.

Financing Activities

Net cash generated from financing activities in 2011 was RMB481.0 million, primarily reflecting (i) proceeds of RMB817.5 million from the Global Offering; (ii) proceeds of RMB189.3 million from the issuance of convertible bonds; and (iii) proceeds of RMB557.0 million from borrowings, partially offset by payment of RMB249.5 million in connection with the reorganization of the Group and repayment of borrowings of RMB764.1 million.

Net cash provided by financing activities in 2010 was RMB108.4 million, primarily reflecting RMB852.4 million in proceeds from borrowings, partially offset by (i) RMB490.8 million in repayments of borrowings; and (ii) RMB235.4 million in considerations paid in connection with our corporate reorganization in 2010.

CAPITAL EXPENDITURE

Our capital expenditures were RMB203.1 million and RMB359.0 million in 2010 and 2011 respectively. Our capital expenditures in 2011 were primarily made in connection with our purchase of drilling rigs for our oilfield services segment, construction facilities and payment for land use rights in Shanghai. Our capital expenditures in 2010 were primarily made in connection with our purchase of drilling rigs for our oilfield services segment and construction facilities in Shanghai.

INDEBTEDNESS

As at 31 December 2011, we had outstanding indebtedness of RMB761.7 million mainly denominated in RMB. The following table sets forth components of our indebtedness as at the dates indicated:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current		
Bank borrowings – unsecured	**1,200**	5,900
Convertible bonds	**178,741**	–
Related party borrowing	**–**	10,565
Less: Current portion of non-current borrowings	**(1,200)**	(15,265)
	178,741	1,200
Current		
Bank borrowings – secured	**267,306**	401,758
Bank borrowings – unsecured	**306,574**	217,000
Related party borrowing	**7,876**	–
Series A convertible preferred shares	**–**	169,401
Current portion of non-current borrowing	**1,200**	15,265
	582,956	803,424
	761,697	804,624

Bank borrowings of RMB226.3 million were jointly secured by certain buildings and facilities and land use rights of the Group, with an aggregate carrying amount of RMB211.6 million as at 31 December 2011.

Bank borrowings of RMB26.0 million were secured by certain trade receivables with carrying amount of RMB10.7 million as at 31 December 2011.

Bank borrowings of RMB15.0 million were secured by certain bank deposits of the Group, with carrying amount of RMB8.0 million as at 31 December 2011.

MATERIAL ACQUISITIONS AND DISPOSALS

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

On 2 March 2011, the Group acquired an additional 28% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd. at a purchase price of RMB43.0 million. The carrying amount of the non-controlling interests in Shanghai Hilong Shine New Material Co., Ltd. on the date of acquisition was RMB34.7 million. After the acquisition, the Group owns 100% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd., which is principally engaged in production and sales of coating materials.

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

On 2 March 2011, the Group acquired an additional 40% of the equity interest in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. at a purchase price of RMB36.3 million. The carrying amount of the non-controlling interests in Shanghai Hilong Anti- Corrosion Technology Engineering Co., Ltd. on the date of acquisition was RMB29.2 million. After the acquisition, the Group owns 100% of the equity interest in Shanghai Hilong Anti- Corrosion Technology Engineering Co., Ltd., which is principally engaged in provision of line pipe coating service.

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

On 2 March 2011, the Group acquired an additional 46% of the equity interest in Shanghai Boteng Welding Consumable Co., Ltd. at a purchase price of RMB29.2 million. The carrying amount of the non-controlling interests in Shanghai Boteng Welding Consumable Co., Ltd. on the date of acquisition was RMB5.8 million. After the acquisition, the Group owns 100% of the equity interest in Shanghai Boteng Welding Consumable Co., Ltd., which is principally engaged in production and sales of hardbanding.

Acquisition of additional interest in CNOOC Tube-Cote Tianjin Pipe Co., Ltd.

On 2 August 2011, the Group, through Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. acquired an additional 60% of the equity interest in CNOOC Tube-Cote Tianjin Pipe Co., Ltd. at a purchase price of RMB18.4 million. After the acquisition, the Group's effective equity interest increased from 20.40% to 51% and obtained control over this entity, which is principally engaged in provision of OCTG coating service.

Subsequent to the completion of the acquisition, CNOOC Tube-Cote Tianjin Pipe Co., Ltd.'s legal name was changed to Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. in October 2011.

Acquisition of additional interest in Almansoori Hilong Petroleum Pipe Company

On 31 December 2011, the Group acquired, through Links Commercial Enterprise LLC who acted as nominee, an additional 51% of the equity interest in Almansoori Hilong Petroleum Pipe Company at a purchase price of RMB35.3 million. After the acquisition, the Group's effective equity interest increased from 49% to 100% and obtained control over this entity, which is principally engaged in production and sales of drill pipes.

Subsequent to the completion of the acquisition, Almansoori Hilong Petroleum Pipe Company's legal name was changed to Hilong Petroleum Pipe Company in March 2012.

Acquisition of additional interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

On 20 July 2011, the Group acquired an additional 5% of the equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. at a purchase price of RMB1.5 million. After the acquisition, the Group's equity interest increased from 50% to 55% and obtained control over this entity, which is principally engaged in provision of OCTG coating service.

STAFF AND REMUNERATION

As at 31 December 2011, the total number of full-time employees of the Group was 1,738 (31 December 2010:1,314). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2011:

On-site workers	1,139
Administrative	370
Research and development	105
Sales and marketing	43
Company management	23
After-sales services	15
Overseas representatives	43
	1,738

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

The Company also ratified and adopted a Pre-IPO share option scheme on 28 February 2011. The Pre-IPO share option scheme commenced on 1 January 2011. During 2011, options to subscribe for an aggregate of 46,322,000 shares 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 31 December 2011 and 31 December 2010 are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Total borrowings	**761,697**	804,624
Less: Cash and cash equivalents	**(322,429)**	(246,936)
Net debt	**439,268**	557,688
Total equity	**2,038,617**	905,609
Total capital	**2,477,885**	1,463,297
Gearing ratio	**17.73%**	38.11%

The decrease in the gearing ratio as at 31 December 2011 when compared to the gearing ratio as at 31 December 2010 resulted primarily from the decrease in the balance of borrowings and significant increase in total equity as the Company issued new shares under the Global Offering in 2011.

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 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 this 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 23.9% appreciation of Renminbi against the US dollars from 21 July 2005 to 31 December 2011. There remains significant pressure on the PRC government to adopt a 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. The revenue denominated in US dollars represented 36.0% and 38.7% of the total revenue of the Company in 2010 and 2011, respectively.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

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

Name	Age	Management Position
ZHANG Jun (張軍)	44	Chairman, Executive Director and Chief Executive Officer
ZHANG Shuman (張姝嫚)	38	Executive Director and Chief Strategy Officer
JI Min (紀敏)	36	Executive Director and Chief Financial Officer
DATUK SYED HISHAM Bin Syed Wazir	57	Non-executive Director
YUAN Pengbin (袁鵬斌)	53	Non-executive Director
WANG Tao (汪濤)	48	Non-executive Director
LI Huaiqi (李懷奇)	62	Non-executive Director
WANG Tao (王濤)	65	Independent Non-executive Director
LIU Qihua (劉奇華)	46	Independent Non-executive Director
LEE Siang Chin	63	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 44, is an Executive Director, the chairman of the Board and chief executive officer of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. As the chief executive officer, Mr. Zhang is responsible for the overall business operations and strategy formulation of the Company. Mr. Zhang has over 20 years of experience in the petroleum industry. From 2001 to 2007, he engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. In the position of vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was awarded one of the "Top 10 Influential Leaders in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009" (2009中國石油石化裝備製造業十大最具影響力領軍人物) by the National Energy Commission (國家能源委員會). Mr. Zhang is the brother of Ms. ZHANG Shuman, Executive Director of the Company.

Ms. ZHANG Shuman (張姝嫚), aged 38, is an Executive Director, the chief strategy officer and chairlady of the nomination committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. Ms. Zhang has over 15 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003, Ms. Zhang is primarily responsible for the financing activities and strategic investment activities of the Group. Ms. Zhang has been a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. From 2003 to 2006, she acted as the joint secretary to the board of directors and coordinator of a China joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the sister of Mr. ZHANG Jun, Executive Director, chairman of the Board, chief executive officer and substantial and controlling shareholder of the Company.

Mr. JI Min (紀敏), aged 36, is an Executive Director and the chief financial officer of the Company. He was appointed as Executive Director of the Company on 2 December 2010. As chief financial officer, Mr. Ji is responsible for overall financial and corporate finance management of the Company. He worked for PricewaterhouseCoopers from 1997 to 2006 and served as its senior manager. He gained extensive experiences in auditing and client management and participated in the audit work of several initial public offerings in China, including the listing of PetroChina Company Limited (中國石油天然氣股份有限公司) on the Stock Exchange (stock code: 0857). Prior to joining the Group in 2010, Mr. Ji acted as finance director of The9 Limited, an online gaming operation and development company (NASDAQ: NCTY), where he was responsible for overall financial operation from 2006 to 2007. From 2007 to 2010, he served as vice president of T2CN Information Technology (Shanghai) Co., Ltd. (天聯世紀信息技術(上海)有限公司), an internet technology and service provider and was responsible for the financial, legal, human resources and administrative management. Mr. Ji received a Bachelor's degree in Accounting from Shanghai Jiao Tong University (上海交通大學) in 1997. He is a member of the Chinese Institute of Certified Public Accountants.

Non-executive Directors

Datuk SYED HISHAM Bin Syed Wazir, aged 57, is a Non-executive Director of the Company since 28 February 2011. Datuk Syed Hisham is the president and chief executive officer of UMW Holdings Berhad, a Malaysian-based company which engages in the business of providing engineering solutions to the automotive, petrochemicals and oil and gas industries and listed on the Kuala Lumpur Stock Exchange (UMWS.KL), since 2010. He is also director and vice chairman of WSP Holdings Limited, a company listed on the New York Stock Exchange and director of Oil Country Tubular Limited, a company listed on the Bombay Stock Exchange and the National Stock Exchange (India) since 2010. He has over 28 years of experience in senior management. From 1983 to 1998, Datuk Syed Hisham held various management positions in companies in Malaysia, including assistant manager in the project development division of Hicom Berhad, director of Proton Cars (UK) Pte. Ltd. and general manager of Proton Corpn Sdn Bhd. From 1998 to 2000, Datuk Syed Hisham served as general manager in the international business department of DRB-Hicom Export Corporation Sdn Bhd. From 2001 to 2002, he also served as general manager in the marketing division of Honda Malaysia Sdn Bhd, where he subsequently served as president and chief operating officer from 2003 to 2005. He acted as managing director of Edaran Otomobil Nasional Berhad from 2005 to 2009 and as chief operating officer of Naza Kia Sdn Bhd and Naza Kia Services Sdn Bhd from 2009 to 2010. Datuk Syed Hisham received his Bachelor's degree in Mechanical Engineering from Plymouth University in 1979 and his Master's degree in Business Administration from Ohio State University in 1996. He is a fellow member of the Institute of Motor Industry in the United Kingdom.

Mr. YUAN Pengbin (袁鵬斌), aged 53, is a Non-executive Director and the chairman of the remuneration committee of the Company. He was appointed as Non-executive Director on 2 December 2010. He serves as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) since 2005, a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特(山西)石油管道塗層有限公司) since 2008 and the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 2011. He has over 28 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd., the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所). He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011. Although Mr. Yuan will continue to hold managerial positions in our subsidiaries, his role at the Company level will be limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Center (中國石油天然氣集團公司石油管材研究所), where he was engaged in the applied research, quality control and technology supervision of petroleum tubular goods, from 1983 to 2005. He acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司). Mr. Yuan received a Bachelor's degree in Engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a Doctoral degree in Engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer (professor level) in heat treatment.

Mr. WANG Tao (汪濤), aged 48, is a Non-executive Director and a member of the audit committee of the Company. He was appointed as Non-Executive Director on 2 December 2010. He also serves as directors of Hilong Drilling & Supply FZE and Hilong Oil Services and Engineering Nigeria Limited since 2010. Mr. Wang has over 23 years of management experience in the petroleum industry and he serves as vice general manager of Hilong Group of Companies Ltd. from 2006 to present. Although Mr. Wang holds an executive role in Hilong Group of Companies Ltd., his involvement at the Company level is limited to non-executive functions. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991 and was responsible for on-site operation and business administration. From 1991 to 2001, he served as assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

Mr. LI Huaiqi (李懷奇), aged 62, is a Non-executive Director of the Company. He was appointed as Non-executive Director on 26 August 2011. He is a Senior Economist and is also the President of Chinese National Committee of World Petroleum Council and the Vice Chairman of the Listed Companies Association of Beijing. Mr. Li has nearly 40 years of experience in China's oil and gas industry. He had worked at Daqing Oilfield, Liaohe Oilfield, Huabei Oilfield of China National Petroleum Corporation ("CNPC") and China National Offshore Oil Corporation ("CNOOC") Nanhai East Corporation. In 1984, Mr. Li served as Deputy Director-General of the President's Office of CNOOC Nanhai East Corporation. From 1985 to 1990, he held positions as Assistant and Deputy Director of Secretariat of Ministry of Petroleum, CNPC. From August 1990 to March 1992, he studied at the College of Economy of Texas A&M University in the United States. He was also the head and Communist Party Branch Secretary of the First CNPC Senior Management's Training Class from August 1991 to February 1992. In June 1992, he served as Deputy Director-General and Director-General of the International Department of CNPC. In October 1998, he was appointed as Director-General of the International Department of CNPC. In August 2001, he was appointed as Secretary to the Board of PetroChina Co., Ltd. In June 2009, he assumed the positions of the Deputy-Director General of Advisory Center and Advisor of Expert Committee in CNPC, and also the Vice Chairman of the Listed Companies Association of Beijing and member of Chinese National Committee of World Petroleum Council. He assumed the current position as the President of Chinese National Committee of World Petroleum Council since June 2011. In 2008, Mr. Li was named "top 100 Secretary to the Board" of Chinese Listed Companies by Securities Times. In 2009, he received the award of "Excellent Secretary to the Board of Golden Governance Social Responsibility Companies" by Shanghai Securities News and "Best Secretary to the Board Award" in the 9th Top 100 Chinese Listed Companies Summit hosted by Warton Economic Institute. He was also selected as "Excellent Secretary to the Board" in the annual appraisal for 2008-2009 by The Shanghai Stock Exchange.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 65, is an Independent Non-executive Director and a member of the audit committee, remuneration committee and nomination committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Wang has 37 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械廠工業部5214廠技術員) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and general manager, chairman and senior engineer (professor level) of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院, now known as Xidian University (西安電子科技大學)) from 1965 to 1970 and obtained a Certifi cate of Completion of Studies in 1970.

Mr. LIU Qihua (劉奇華), aged 46, is an Independent Non-Executive Director and a member of the nomination committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. From 1987 to 1995, Mr. Liu worked as an editor of Science Press Company Limited (科學出版社有限責任公司), an associate of Chinese Academy of Science (中國科學院). From 1995 to 1999, Mr. Liu served as a film director of China Intercontinental Communication Center (五洲傳播中心) of State Council Information Office of the PRC (中華人民共和國國務院新聞辦公室). He served as editor in chief of Panda TV and as director of Flying Rainbow communication Co., Ltd. from 1995 to 1998. In 1999, Mr. Liu founded Beijing Dongfang Jiayuan Culture & Art Development Company Limited (北京東方家園文化藝術發展有限公司), a company engaged in the development of art and culture, and has been the managing director of the same company since then. Mr. Liu's experience in the State Council Information Office will assist the Group in understanding governmental policies of the PRC, in particular those which may affect the industry which the company currently operates in. Mr. Liu received his Bachelor's degree in Science from Jilin University (吉林大學) in 1987.

LEE Siang Chin, aged 63, is an Independent Non-executive Director, the chairman of the audit committee and a member of the remuneration committee of the Company. He was appointed as Independent Non-Executive Director on 2 December 2010. Mr. Lee has over 38 years of experience in the provision of finance consultancy services for companies in Malaysia, London, Australia and Hong Kong. Mr. Lee serves as directors in the following companies:

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

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

SENIOR MANAGEMENT

For biographies of Mr. ZHANG Jun, Ms. ZHANG Shuman and Mr. JI Min, see "– BOARD OF DIRECTORS – Executive Directors". Other members of our senior management team consist of the following.

Mr. CHEN Su (陳甦), aged 53, is the general manager of Hilong Group of Companies Ltd. since 2007 and a director of Hilong Oil Services and Engineering Co., Ltd. since 2008. Mr. Chen has over 29 years of experience in the petroleum industry. From 1982 to 2005, he worked in the department of steel pipe manufacturing of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司) and served as its branch factory manager, deputy general manager and general manager. In 2005, he also served as the deputy general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). Mr. Chen received a Bachelor's degree in Engineering from Shanghai University of Technology (上海工業大學) in 1982.

Mr. DAI Daliang (代大良), aged 45, is a director of Hilong Drilling & Supply FZE since 2010, a director of Hilong Oil Services and Engineering Nigeria Limited since 2010 and a director and the general manager of Hilong Oil Service & Engineering Co., Ltd. since 2008. Mr. Dai has over 22 years of experience in the petroleum industry. Prior to joining our Group, from 1989 to 1995, Mr. Dai worked as engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司) and was engaged in drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司) and was engaged in international drilling cooperation. From 1996 to 2008, he worked for Greatwall Drilling Company Limited ("GWDC", 中油長城鑽井有限公司) as its co-manager of marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by GWDC. In 2008, he worked as assistant to general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's degree in Engineering from Central South University of Technology in 1990 and a Doctorate degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. LIU Yizhuang (劉義壯), aged 49, is the general manager of the international business department of Hilong Group of Companies Ltd. since 2006 and is responsible for matters relating to international trade. Mr. Liu has over 26 years of experience in the petroleum industry. He started his professional career when he joined Offshore Oil Engineering Design Co., Ltd. (海洋石油工程設計公司), a subsidiary of China National Offshore Oil Corp (中國海洋石油總公司), in 1985. During his employment with Offshore Oil Engineering Design Co., Ltd., he participated in several offshore oil engineering construction projects, including the development of Bozhong 28–1 and Jinzhou 20–2 Oilfields. From 1992 to 2005, he served as general manager of oil business department of the Beijing office of Tenaris Global Services S.A., a leading enterprise in the world's seamless steel pipe industry, and was responsible for the sales and after-sale services of oil pipes in East Asia. Mr. Liu received his Bachelor's degree in Engineering from China University of Petroleum (Huadong) (中國石油大學(華東)) (formerly known as East China Petroleum Institute (華東石油學院)) in 1985. He completed the Program for Executive Development in International Institute for Management Development, Lausanne in 2001.

Mr. CAO Yuhong (曹育紅), aged 42, is the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 20 years of experience in the petroleum industry. Prior to joining our Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau and served as its deputy manager of coating branch from 1996. Mr. Cao received a Bachelor's degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學) in 1991.

Mr. FANG Junfeng (方軍鋒), aged 41, is a director and the general manager of Shanghai Hilong Shine New Material Co., Ltd. since 2006 and a director and the general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. since 2008. Mr. Fang has over 18 years of experience in tubular goods research. Prior to joining our Group, from 1993 to 1999, Mr. Fang served as director of anti-corrosion research laboratory in CNPC Tubular Goods Research Institute (中國石油天然氣集團管材研究所). From 2002 to 2003, he served as director of on-site inspection department in CNPC Tubular Goods Research Institute. From 2003 to 2004, he served as chairman and general manager in Shaanxi Ante Technology Engineering Company Limited (陝西安特技術工程有限公司). Mr. Fang received his Bachelor's degree in Engineering from Hunan University (湖南大學) in 1993 and his Master's degree in Engineering from Xi'an Jiaotong University (西安交通大學) in 2003.

Mr. GAO Zhihai (高智海), aged 42, is the chairman and general manager of Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 16 years of experience in the petroleum industry. Prior to joining our Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received from Southwest Petroleum University (西南石油學院) a Bachelor's degree in Engineering in 1992 and a Master's degree in Engineering in 1995. Mr. Gao was named an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. XUE Zhijun (薛志軍), aged 48, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. Mr. Xue has over 7 years of experience in the petroleum industry. Prior to joining our Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as deputy manager of CNPC Bohai Petroleum Equipment Manufacturing Company Limited First Machinery Factory (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded an "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction" (國家西氣東輸工程建設先進個人) by National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and an "Outstanding Entrepreneur in Hebei Province" (河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

JOINT COMPANY SECRETARIES

Ms. CHENG Pik Yuk (鄭碧玉), aged 54, is a corporate services director of Tricor Services Limited, providing corporate secretarial services to client companies. Prior to joining the Tricor Group, she was a senior manager of the company secretarial department of Deloitte Touche Tohmatsu and also served as the departmental manager. Ms. Cheng has worked in the company secretarial departments of a number of international accounting firms and has over 30 years of experience in the company secretarial field. She has been providing corporate secretarial support services to listed companies and multi-national groups. Ms. Cheng is a Fellow Member of The Institute of Chartered Secretaries and Administrators in the U.K. and The Hong Kong Institute of Chartered Secretaries ("HKICS"), and is a holder of the Practitioner's Endorsement of the HKICS. She was appointed as a joint company secretary of the Company on 10 February 2011.

Ms. ZHANG Shuman (張姝嫚), aged 38, was appointed as a joint company secretary of the Company on 10 February 2011. Ms. Zhang has over four years of experience in corporate secretarial services. She acted as secretary to the board of directors of UMW Ace (L) Ltd. from 2003 to 2006. For further details regarding Ms. Zhang's experience, see "– BOARD OF DIRECTORS – Executive Directors" above.

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2011.

The Company has adopted the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. As the Company was listed on the Stock Exchange on 21 April 2011 (the "Listing Date"), the CG Code was not applicable to the Company for the period from 1 January 2011 to 20 April 2011, the date immediately before the Listing Date. The manner in which the principles and code provisions in the CG Code are applied and implemented since the Listing Date and up to 31 December 2011 (the "Period") is explained in this Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with the applicable code provisions as set out in the CG Code throughout the Period save for the deviations from code provisions A.2.1 and D.1.2 which deviations are explained in the relevant paragraphs of this Corporate Governance Report.

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

THE BOARD OF DIRECTORS

Responsibilites

The Board is responsible for leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

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

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Board Composition

The Board currently comprises ten members, consisting of three Executive Directors, four Non-executive Directors and three Independent Non-executive Directors.

The Board comprises the following Directors:

Executive Directors:
ZHANG Jun *(Chairman and Chief Executive Officer)*
ZHANG Shuman *(Chief Strategy Officer)*
JI Min *(Chief Financial Officer)*

Non-executive Directors:
Datuk SYED HISHAM Bin Syed Wazir
YUAN Pengbin
WANG Tao (汪濤)
LI Huaiqi

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

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

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

Throughout the Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

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

Chairman and Chief Executive Officer

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

The roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. ZHANG Jun. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting 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.

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

Appointment and Re-election of Directors

Each of the Directors (Including Executive and Non-executive Directors) is engaged on a service contract (in the case of executive director) and on a letter of appointment (in the case of Non-executive Director and Independent Non-executive Director) for an initial term of three years, save that the term of appointment of Mr. LI Huaiqi, Non-executive Director, is from 26 August 2011 to 1 December 2013. The appointment may be terminated by not less than one month's written notice by either party.

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

Nomination Committee

The Nomination Committee was established on 28 February 2011 with written terms of reference in compliance with the CG Code and comprises three members, namely Ms. ZHANG Shuman (Chairlady of the Committee), Mr. WANG Tao (王濤) and Mr. LIU Qihua, the majority of them are Independent Non-executive Directors. The terms of reference is available to shareholders upon request.

The primary duties of the Nomination Committee include reviewing the Board structure and composition, developing and formulating relevant procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the Independent Non-executive Directors based on criteria such as integrity, accomplishment, experience, professional and educational background and time commitments. An external recruitment agency may be engaged to carry out the recruitment and selection process if necessary.

The Nomination Committee met once during the Period for considering the recommendation of the appointment of Mr. LI Huaiqi as Non-executive Director of the Company and the attendance record is set out under "Directors' Attendance Records" on page 29.

Induction and Continuing Development of Directors

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

Directors are encouraged to update themselves on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

Board Meetings

Board Practices and Conduct of Meetings

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

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

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting and 5 business days before each committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

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

Three regular board meetings were held during the Period. The meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Directors' Attendance Records

The attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee during the Period are set out below:

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

* Appointed with effect from 26 August 2011

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Period except that:

Mr. LEE Siang Chin, Independent Non-executive Director, through his controlled entity purchased certain shares of the Company on 21 April 2011 and 13 June 2011 respectively, and did not notify the Chairman in writing until the purchases were completed. When the Company became aware of the procedural non-compliance, the Company immediately re-circulated the training materials and memorandum in respect of obligations and liabilities of directors of a Hong Kong listed company to all Directors and particularly reminded each of them in writing of the restrictions on their dealing in securities of the Company under the Model Code. The Company believes that such remedial steps would be sufficient to prevent further non-compliance with the Model Code by any of the Directors.

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

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

DELEGATION OF MANAGEMENT FUNCTIONS

Though the Company has not formalised the functions reserved to the Board and those delegated to the management, in practice, the Board reserves for its decision all major matters of the Company including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

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

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

The Board is making arrangement for the adoption of written terms on division of functions between the Board and the management and on delegation of authority to the management.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The Remuneration Committee was established on 28 February 2011 with written terms of reference in compliance with the CG Code and comprises three members, namely Mr. YUAN Pengbin (Chairman of the Committee), Mr. WANG Tao (王濤) and Mr. LEE Siang Chin, the majority of them are Independent Non-executive Directors. The terms of reference is available to shareholders upon request.

The primary functions of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the Executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and the senior management for the Period under review.

The Remuneration Committee met once during the Period and the attendance record is set out under "Directors' Attendance Records" on page 29.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

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

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

Internal Controls

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

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

Audit Committee

The Audit Committee was established on 28 February 2011 with written terms of reference in compliance with the CG Code and comprises three members, namely Mr. LEE Siang Chin (Chairman of the Committee), Mr. WANG Tao (汪濤) and Mr. WANG Tao (王濤), with Independent Non-executive Directors in majority (including one Independent Non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). The terms of reference is available to shareholders upon request.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditor or external auditors before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the Period, the Audit Committee has reviewed the Group's interim results for the six months ended 30 June 2011, the financial reporting and compliance procedures, the Group's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held three meetings during the Period and the attendance records are set out under "Directors' Attendance Records" on page 29.

External Auditors and Auditors' Remuneration

The reporting responsibilities of the external auditor of the Company on the financial statements of the Group are set out in the Independent Auditor's Report in this annual report.

During the year ended 31 December 2011, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	3,000
Non-audit Services	389
Total	3,389

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner. The Chairman of the Board as well as Chairmen/Chairlady of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the Chairman of the independent Board committee, are available to answer questions at shareholder meetings.

SHAREHOLDER RIGHTS

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

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Company's articles of Association and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group is an integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and oil country tubular goods coatings and oilfield services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated financial statements of this annual report.

DIVIDEND

During the year ended 31 December 2011, dividend of HK3.9 cents per share, amounting to a total dividend of approximately HK$62.4 million (equivalent to approximately RMB51.9 million), was paid to shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK6.9 cents per share, amounting to approximately HK$109.8 million (equivalent to approximately RMB89.0 million) for the year ended 31 December 2011, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM"). Upon approval of the shareholders at the AGM, the proposed final dividend will be paid on 25 May 2012 to the shareholders of the Company whose names appeared on the register of members of the Company as at 17 May 2012.

RESERVES

Details of movement in the reserves of the Group for the year ended 31 December 2011 are set out in note 17 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2011, the reserves of the Company available for distribution to shareholders amounted to RMB939.2 million (2010: nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest and five largest customers were 8.8% and 29.0% of the Group's total sales respectively (2010: 10.3% and 32.7%). The aggregate purchases attributable to the Group's largest and five largest suppliers were 13.0% and 37.2% of the Group's total purchases respectively during the year under review (2010: 11.4% and 29.5%).

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

BANK AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2011 are set out in note 18 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year under review amounted to RMB860,600 (2010: RMB148,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

CONVERTIBLE BONDS

On 30 November 2011, the Company entered into a subscription agreement with CITIC Capital China Access Fund Limited ("CITIC Capital"), whereby CITIC Capital agreed to subscribe and pay for the 3.5% unsecured convertible bonds due 2014 (the "Bonds") to be issued by the Company in an aggregate principal amount of HK$233,250,000 at the issue price of 100% of the principal amount of the Bonds (the "Issue"). The Issue was completed on 9 December 2011.

Assuming full conversion of the Bonds at the initial conversion price of HK$2.40 per share, the Bonds will be convertible into approximately 97,187,500 shares, representing approximately 6.09% of the issued share capital of the Company as of the date of this annual report.

The net proceeds from the Issue, after deduction of expenses, amount to approximately HK$232 million, which the Company intends to use for capital expenditures and working capital purposes, including share repurchases.

The Bonds are not listed on the Stock Exchange and any other stock exchange. Details of the Issue and the principal terms of the Bonds are set out in the Company's announcement dated 30 November 2011 and note 18 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 138 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the year and up to the date of this report are as follows:

Executive Directors

ZHANG Jun (張軍)
ZHANG Shuman (張姝嫚)
JI Min (紀敏)

Non-executive Directors

Datuk SYED HISHAM Bin Syed Wazir
YUAN Pengbin (袁鵬斌)
WANG Tao (汪濤)
LI Huaiqi (李懷奇) *

Independent non-executive Directors

WANG Tao (王濤)
LIU Qihua (劉奇華)
LEE Siang Chin

* Mr. LI Huaiqi was appointed as a Non-executive Director on 26 August 2011.

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

Pursuant to article 83(3) of the Articles, Mr. LI Huaiqi will retire as director at the forthcoming AGM of the Company, whereas Ms. ZHANG Shuman, Mr. JI Min and Mr. WANG Tao (汪濤) will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with article 84 of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from 2 December 2010. Each of the Non-executive Directors and the Independent Non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing from 2 December 2010, except Datuk SYED HISHAM Bin Syed Wazir, who has signed a letter of appointment with the Company for a term of three years commencing from 28 February 2011 and Mr. LI Huaiqi, who has signed a letter of appointment with the Company for a term up to 1 December 2013 commencing from 26 August 2011. None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

EMOLUMENT POLICY

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

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

As at 31 December 2011, the Group had an aggregate of 1,738 full-time employees. Employee costs excluding the Directors' remuneration totalled RMB181.1 million for the year of 2011. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PRE-IPO SHARE OPTION SCHEME

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

(a) Purpose

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

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

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

(b) Who may join

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

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

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

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

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

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

(c) Maximum number of Shares

The total number of shares subject to the Scheme is 46,322,000 shares, representing approximately 2.9% of the issued share capital of the Company as of the date of this annual report. During the year of 2011, all the options under the Scheme that would entitle the holders to subscribe for an aggregate of 46,322,000 shares have been granted. Certain Eligible Participants have been granted options that entitle each of them to subscribe for 2,150,000 shares, representing approximately 0.14% of the issued share capital of the Company as of the date of this annual report, being the highest entitlement for each participant under the Scheme.

(d) Price of Shares

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

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

The grantees to whom options has been granted under the Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the Listing Date and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period, which must not be more than 10 years from the Listing Date.

(f) Expiry of option

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

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

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

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

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

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

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

	Number of share options						
Category/name of participants	**Outstanding as at 1 January 2011**	**Granted during the year**	**Exercised during the year**	**Cancelled/ lapsed during the year**	**Outstanding as at 31 December 2011**	**Exercise price** HK$	**Grant date**
Directors							
Mr. ZHANG Jun	600,000	–	–	–	600,000	2.60	1 January 2011
Ms. ZHANG Shuman	600,000	–	–	–	600,000	2.60	1 January 2011
Mr. JI Min	800,000	–	–	–	800,000	2.60	1 January 2011
Mr. YUAN Pengbin	2,150,000	–	–	–	2,150,000	2.60	1 January 2011
Mr. WANG Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	1 January 2011
In aggregate	6,300,000	–	–	–	6,300,000		
Other employees							
In aggregate	40,022,000	–	–	(803,000)	39,219,000	2.60	1 January 2011
Total	46,322,000	–	–	(803,000)	45,519,000		

DISCLOSURE OF INTERESTS

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

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company:

Name of Directors	Capacity	Number of shares of interest	Approximate percentage of the issued share capital of the Company
Mr. ZHANG Jun	Founder and beneficiary of Mr. Zhang's trust/Held by controlled corporation	971,959,200[(1)]	60.93%
	Founder and beneficiary of three Mr. Zhang's family trusts/ Held by controlled corporations	112,000,800[(2)]	7.02%
	Beneficial owner	760,000	0.05%
Ms. ZHANG Shuman	Held by controlled corporation	24,000,000[(3)]	1.50%
	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	Held by controlled corporation	900,000[(4)]	0.06%

Notes:

(1) The shares are held by Hilong Group Limited, the entire share capital of which is held by Global Nominees Ltd., which is 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 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) The 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) The 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 underlying shares of the Company:

Name of Directors	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Percentage of the issued share capital of the Company
Mr. ZHANG Jun	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Ms. ZHANG Shuman	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Mr. JI Min	Beneficial owner	800,000	21 April 2012 – 31 December 2020	0.05%
Mr. YUAN Pengbin	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%
Mr. WANG Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%

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

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

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

As at 31 December 2011, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO were as follows:

Long position in the shares and underlying shares of the Company

Name of shareholders	Capacity	Number of shares/ underlying shares interested	Percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	971,959,200(1)	60.93%
Global Nominees Ltd.	Nominee	1,083,960,000(1)(2)	67.95%
Standard Chartered Trust (Cayman) Limited	Trustee	1,083,960,000(1)(2)	67.95%
Ms. GAO Xia	Interests of spouse	1,085,320,000(3)	68.04%
CITIC Capital China Access Fund Limited	Beneficial owner	97,187,500(4)	6.09%
CITIC Capital Holdings Limited	Held by controlled corporation	97,187,500(4)	6.09%
China Investment Corporation	Held by controlled corporation	97,187,500(4)	6.09%
	Held by controlled corporation	3,869,000(5)	0.24%
CITIC Limited	Held by controlled corporation	97,187,500(4)	6.09%
CITIC Group	Held by controlled corporation	97,187,500(4)	6.09%

Notes:

(1) The shares are held by Hilong Group Limited, the entire share capital of which is held by Global Nominees Ltd. which is 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 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) The shares are held by Best Investment Corporation, which is wholly-owned by CIC International Co., Limited, which is in turn a wholly-owned subsidiary of China Investment Corporation. China Investment Corporation is therefore deemed to have interests in these shares.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2011 is contained in note 34 to the consolidated financial statements. The transactions between the Group and Shanghai Yuanzhi Metallurgical Co., Ltd., Shanghai Xinhao Technology Development Co., Ltd. and Jiangyan Hilong Wire Welding Co., Ltd. as described in note 34 fall under the definition of continuing connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

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

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

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

As at 31 December 2011, Mr. ZHANG Jun (張軍), the controlling shareholder and director of the Company, and his associates, hold the entire share capital in Hilong Oil Pipe. As such, Hilong Oil Pipe is an associate of Mr. Zhang and a connected person of the Company. The lease under the Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is C$1,038,040 (approximately RMB6,634,000). The proposed annual caps for the lease under the Tenancy Agreement for the three years ending 31 December 2013 are C$1,038,040, C$1,038,040 and C$1,038,040, respectively. The annual rental payable under the lease is determined on normal commercial terms. The Company's valuer, Jones Lang LaSalle Sallmanns, has confirmed that the rental payable under the lease is fair, reasonable and is consistent with the prevailing market rates for similar properties in similar locations in Canada.

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

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

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

As at the 31 December 2011, Mr. ZHANG Jun (張軍), the controlling shareholder and director of the Company, owns 95.65% of the interest in Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("Huashi Hailong"), which in turns holds 60% of interest in Hebei Zhongxin. As such, Hebei Zhongxin is an associate of Mr. ZHANG and a connected person of the Company. The transactions under the Master Sales Agreement therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

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

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

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

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

As at the 31 December 2011, Mr. ZHANG Jun (張軍), the controlling shareholder and director of the Company, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. Zhang and a connected person of the Company. The lease under the Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

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

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

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

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, during the year ended 31 December 2011 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

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

The Company has purchased a total of 8,660,000 shares on the Stock Exchange during the year ended 31 December 2011 as follows:

Month	No. of Shares Purchased	Purchase Price Per Share Highest	Purchase Price Per Share Lowest	Aggregate Consideration Paid
		HK$	HK$	HK$
December 2011	8,660,000	1.44	1.30	11,905,507.60

The Directors considered that the repurchases described above would lead to an enhancement of the net asset value and earnings per share of the Company and the Directors believed that such repurchases were in the interests of the Company and the shareholders as a whole.

Out of 8,660,000 shares repurchased during the year, 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 were no other purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

The Company has received an annual confirmation from the Controlling Shareholders in respect of their compliance with the non-competition undertakings under the Deed during the period from the date of the Deed to 31 December 2011. The Independent Non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders.

AUDITOR

The financial statements for the year ended 31 December 2011 have been audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming AGM for the re-appointment of PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board

Zhang Jun
Chairman

Hong Kong, 23 March 2012

羅兵咸永道

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

We have audited the consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 137, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2012

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**1,095,866**	733,292
Lease prepayments	*7*	**86,589**	55,788
Intangible assets	*8*	**69,397**	11,780
Investments in associates	*9*	**53,539**	78,811
Investments in jointly controlled entities	*10*	**5,143**	6,279
Deferred income tax assets	*11*	**60,832**	37,551
Other long-term assets		**553**	219
		1,371,919	923,720
Current assets			
Inventories	*13*	**509,510**	365,522
Trade and other receivables	*14*	**1,312,883**	1,179,748
Restricted cash	*15*	**56,801**	52,570
Cash and cash equivalents	*15*	**322,429**	246,936
		2,201,623	1,844,776
Total assets		**3,573,542**	2,768,496
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*16*	**133,927**	811
Other reserve	*17*	**742,707**	(82,328)
Retained earnings			
– Proposed final dividend	*29(a)*	**89,017**	–
– Others		**929,118**	776,116
Currency translation differences		**(34,625)**	(11,803)
		1,860,144	682,796
Non-controlling interests		**178,473**	222,813
Total equity		**2,038,617**	905,609

The notes on page 55 to 137 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (continued)

AS AT 31 DECEMBER 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	**178,741**	1,200
Deferred income tax liabilities	11	**86,951**	77,061
Derivative financial instruments	18(d)	**12,810**	–
Deferred revenue	19	**20,250**	13,650
		298,752	91,911
Current liabilities			
Trade and other payables	20	**621,278**	953,422
Current income tax liabilities		**31,539**	13,592
Borrowings	18	**582,956**	803,424
Derivative financial instruments	18(b)	**–**	133
Deferred revenue	19	**400**	405
		1,236,173	1,770,976
Total liabilities		**1,534,925**	1,862,887
Total equity and liabilities		**3,573,542**	2,768,496
Net current assets		**965,450**	73,800
Total assets less current liabilities		**2,337,369**	997,520

The notes on page 55 to 137 are an integral part of these financial statements.

The financial statements on pages 47 to 137 were approved by the Board of Directors on 23 March 2012 and were signed on its behalf.

Zhang Jun
Director

Ji Min
Director

BALANCE SHEET

AS AT 31 DECEMBER 2011

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	12	**11,214**	–
Current assets			
Trade and other receivables	14	**1,187,612**	264,949
Cash and cash equivalents	15	**81,329**	33,728
		1,268,941	298,677
Total assets		**1,280,155**	298,677
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	16	**133,927**	811
Other reserve	17	**860,647**	–
Retained earnings/(Accumulated losses)			
– Proposed final dividends	29(a)	**89,017**	–
– Others		**1,176**	(4,408)
Total equity		**1,084,767**	(3,597)
LIABILITIES			
Non-current liabilities			
Borrowings	18	**178,741**	–
Derivative financial instruments	18(d)	**12,810**	–
		191,551	–
Current liabilities			
Trade and other payables	20	**3,837**	3,982
Borrowings	18	**–**	298,159
Derivative financial instruments	18(b)	**–**	133
		3,837	302,274
Total liabilities		**195,388**	302,274
Total equity and liabilities		**1,280,155**	298,677
Net current assets/(liabilities)		**1,265,104**	(3,597)
Total assets less current liabilities		**1,276,318**	(3,597)

The notes on page 55 to 137 are an integral part of these financial statements.

The financial statement on pages 47 to 137 were approved by the Board of Directors on 23 March 2012 and were signed on its behalf.

Zhang Jun
Director

Ji Min
Director

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	5	**1,821,194**	1,356,462
Cost of sales	21	**(1,074,584)**	(799,856)
Gross profit		**746,610**	556,606
Selling and marketing expenses	21	**(109,454)**	(79,026)
Administrative expenses	21	**(240,967)**	(172,210)
Other income	24	**34,067**	–
Other (losses)/gains – net	25	**(9,243)**	15,085
Operating profit		**421,013**	320,455
Finance income	26	**1,182**	700
Finance costs	26	**(46,748)**	(30,476)
Finance costs – net		**(45,566)**	(29,776)
Share of results of:			
– Associates	9	**(4,096)**	1,258
– Jointly controlled entities	10	**(6,754)**	(16,756)
Profit before income tax		**364,597**	275,181
Income tax expense	27	**(45,034)**	(45,275)
Profit for the year		**319,563**	229,906
Profit attributable to:			
Equity owners of the Company		**301,691**	178,369
Non-controlling interests		**17,872**	51,537
		319,563	229,906
Earnings per share from operations attributable to the equity owners of the Company during the year (expressed in RMB per share)			
Basic earnings per share	28	**0.21**	0.16
Diluted earnings per share	28	**0.21**	0.16

The notes on page 55 to 137 are an integral part of these financial statements.

Dividends	*29(a)*	**89,017**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**319,563**	229,906
Other comprehensive income:		
Currency translation differences	**(6,807)**	(5,115)
Amount previously recognized in other comprehensive income in respect of a subsidiary disposed in 2010	**–**	(48)
Exchange differences arising from monetary items that forms part of the Group's net investment in certain foreign subsidiaries	**(16,015)**	2,314
Other comprehensive income for the year, net of tax	**(22,822)**	(2,849)
Total comprehensive income for the year	**296,741**	227,057
Attributable to:		
Equity owners of the Company	**278,869**	175,520
Non-controlling interests	**17,872**	51,537
	296,741	227,057

The notes on page 55 to 137 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

		Capital and reserves attributable to equity owners						
	Note	Ordinary shares RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2010		–	211,007	619,343	(9,002)	821,348	191,839	1,013,187
Comprehensive income								
Profit for the year		–	–	178,369	–	178,369	51,537	229,906
Other comprehensive income								
Currency translation differences		–	–	–	(5,115)	(5,115)	–	(5,115)
Amount previously recognized in other comprehensive income in respect of a subsidiary disposed in 2010	*33*	–	(48)	–	–	(48)	–	(48)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		–	–	–	2,314	2,314	–	2,314
Total comprehensive income for the year		–	(48)	178,369	(2,801)	175,520	51,537	227,057
Appropriation to statutory reserve	*17(1)*	–	11,596	(11,596)	–	–	–	–
Transactions with owners								
Share capital issued and paid	*16*	811	–	–	–	811	–	811
Dividends declared and paid to the then equity owners	*29*	–	–	(10,000)	–	(10,000)	–	(10,000)
Dividends to non-controlling interests by subsidiaries		–	–	–	–	–	(25,997)	(25,997)
Non-controlling interests' contributions to the Group		–	–	–	–	–	9,951	9,951
Disposal of a subsidiary	*33*	–	–	–	–	–	(4,517)	(4,517)
Capital increase to subsidiaries by their then equity owners	*17(2)*	–	6,044	–	–	6,044	–	6,044
Consideration paid/payable to the then equity owners for acquisition or disposal of subsidiaries under common control	*17(2)*	–	(310,927)	–	–	(310,927)	–	(310,927)
As at 31 December 2010		811	(82,328)	776,116	(11,803)	682,796	222,813	905,609

		Capital and reserves attributable to equity owners						
	Note	Ordinary shares RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2011		811	(82,328)	776,116	(11,803)	682,796	222,813	905,609
Comprehensive income								
Profit for the year		–	–	301,691	–	301,691	17,872	319,563
Other comprehensive income								
Currency translation differences		–	–	–	(6,807)	(6,807)	–	(6,807)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		–	–	–	(16,015)	(16,015)	–	(16,015)
Total comprehensive income for the year		–	–	301,691	(22,822)	278,869	17,872	296,741
Appropriation to statutory reserve	*17(1)*	–	7,392	(7,392)	–	–	–	–
Transactions with owners								
Issue of new shares pursuant to global initial public offering, netting of listing expenses	*16(e)*	33,576	783,905	–	–	817,481	–	817,481
Series A preferred shares converted into ordinary shares	*16(f)*	4	170,128	–	–	170,132	–	170,132
Capitalization issue	*16(g)*	99,924	(99,924)	–	–	–	–	–
Capital increase to subsidiaries by their then equity owners	*17(2)*	–	5,275	–	–	5,275	–	5,275
Share repurchase	*17(4)*							
– repurchases of shares		(388)	–	–	–	(388)	–	(388)
– premium on repurchase of shares		–	(5,064)	–	–	(5,064)	–	(5,064)
– transfer		–	388	(388)	–	–	–	–
Non-controlling interests' contributions to the Group		–	–	–	–	–	2,960	2,960
Consideration paid to the then equity owners for acquisition of subsidiaries under common control	*17(2)*	–	(9,529)	–	–	(9,529)	–	(9,529)
Pre-IPO share option plan	*17(3)*	–	11,214	–	–	11,214	–	11,214
Dividends in respect of 2010	*29(b)*	–	–	(51,892)	–	(51,892)	–	(51,892)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(5,780)	(5,780)
Non-controlling interests arising on business combination	*32*	–	–	–	–	–	10,286	10,286
Changes in ownership interests in subsidiaries without change of control	*35*	–	(38,750)	–	–	(38,750)	(69,678)	(108,428)
As at 31 December 2011		133,927	742,707	1,018,135	(34,625)	1,860,144	178,473	2,038,617

The notes on page 55 to 137 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

		Year ended 31 December	
	Note	**2011 RMB'000**	2010 RMB'000
Cash flow from operating activities			
Cash generated from operations	*30(a)*	**157,377**	223,822
Interest paid		**(36,399)**	(24,750)
Income tax paid		**(40,478)**	(35,731)
Net cash generated from operating activities		**80,500**	163,341
Cash flow used in investing activities			
Proceeds from disposal of property, plant and equipment	*30(b)*	**15,604**	509
Disposal of a subsidiary	*33*	**–**	(100)
Increase in investments in an associate	*25(a)*	**(8,375)**	(4,500)
Increase in investments in jointly controlled entities	*10*	**(16,317)**	(8,844)
Purchases of property, plant and equipment		**(281,096)**	(144,670)
Purchases of lease prepayments		**(31,800)**	(12,765)
Purchases of intangible assets		**(2,415)**	(16)
Changes in ownership interests in subsidiaries without change of control	*35*	**(108,428)**	–
Acquisition of subsidiaries, net of cash acquired	*32*	**(50,211)**	–
Dividends received	*9*	**4,809**	4,524
Net cash used in investing activities		**(478,229)**	(165,862)
Cash flows from financing activities			
Issue of new shares pursuant to global initial public offering, netting of listing expenses	*16(e)*	**817,481**	–
Contributions to subsidiaries by their then equity owners	*17(2)*	**5,275**	6,044
Capital contributions to the Company	*16*	**–**	811
Net cash outflow arising from consideration paid to the then equity owners for acquisition of subsidiaries under common control		**(249,528)**	(235,384)
Interest paid for the Series A convertible preferred shares	*18(b)*	**(5,814)**	–
Net cash in flow arising from issuance of convertible bonds, netting of transaction costs	*18(d)*	**189,274**	–
The subsidiaries' non-controlling interests' contribution to these subsidiaries		**2,960**	9,951
Proceeds from borrowings		**557,021**	852,419
Repayments of borrowings		**(764,119)**	(490,792)
Dividends paid to the non-controlling interests of the subsidiaries		**(9,406)**	(27,828)
Repurchase of shares, netting of transaction costs	*17(4)*	**(5,452)**	–
Prepayment for shares repurchase in January 2012	*14*	**(1,844)**	–
Dividend in respect of 2010	*29(b)*	**(51,892)**	–
Dividends paid to the Controlling Shareholder		**–**	(1,830)
Net cash out flow arising from security deposit for bank borrowings		**(3,000)**	(5,000)
Net cash generated from financing activities		**480,956**	108,391
Net increase in cash and cash equivalents		**83,227**	105,870
Exchange losses on cash and cash equivalents		**(7,734)**	(537)
Cash and cash equivalents at beginning of the year		**246,936**	141,603
Cash and cash equivalents at end of the year		**322,429**	246,936

The notes on page 55 to 137 are an integral part of these financial statements.

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION

(i) General information of the Group

The Company was incorporated in the Cayman Islands on 15 October 2008 as an exempted company with limited liability under the Company Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands in preparation for listing the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"). The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and distribution of oil and gas equipment and coating materials, and provision of coating services and oilfield services.

The Company completed its global initial public offering and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 21 April 2011 (the "Listing").

The consolidated financial statements are presented in Renminbi (RMB), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 23 March 2012.

(ii) History and Reorganization of the Group

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

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.

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

1 GENERAL INFORMATION OF THE GROUP AND REORGANIZATION (continued)

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

(d) During the period from July 2010 to March 2011, Hailong International gradually transferred its equity interests in its subsidiaries engaged in 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.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The Reorgnization was completed on 2 March 2011. As the Controlling Shareholder owned and controlled the companies now comprising the Group before the Reorganization continues to own and control these companies after the Reorganization, the Reorginization has been accounted for in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), under which the financial statements of the Group have been prepared as if the current group structure had been in existence from 1 January 2010, the beginning of the earliest period presented.

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

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It clarifies and simplifies the definition of a related party. Further information in respect of the details of the transactions and the outstanding balances of the Group is disclosed in Note 34.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group (continued)

- Third annual improvement project published by the HKICPA in May 2010.

  HKFRS 3 "Business combinations" is effective for annual period beginning on or after January 2011. It clarifies that entities should apply the rules in HKFRS 3 (not HKFRS 7, HKAS 32 or HKAS 39) to contingent consideration that arose from business combinations with acquisition dates that precede the application of HKFRS 3. It clarifies that only entities with present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation can choose to measure the non-controlling interest at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets. It also clarifies the application guidance in HKFRS 3 applies to all share based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.

  HKFRS 7 "Financial instruments: Disclosures" is effective for annual period beginning on or after January 2011. It clarifies seven disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures.

  HKAS 1 "Presentation of financial statements" is effective for annual period beginning on or after January 2011. It clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

  HKAS 27 "Consolidated and separate financial statements" is effective for annual period beginning on or after January 2011. It clarifies that the consequential amendments from HKAS 27 made to HKAS 21. The effect of changes in foreign exchange rates, HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when HKAS 27 is applied earlier.

  HKAS 34"Interim financial reporting" is effective for annual period beginning on or after July 2010. It provides guidance to illustrate how to apply disclosure principles in HKAS 34 and add disclosure requirements around:

  - The circumstances likely to affect fair values of financial instruments and their classification;
  - Transfers of financial instruments between different levels of the fair value hierarchy,
  - Changes in classification of financial assets, and
  - Changes in contingent liabilities and assets.

  The adoption of the above revised amendments in 2011 does not have any significant impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- Amendment to HKAS 32 "Classification of rights issues" is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- HK(IFRIC)-Int 19 "Extinguishing financial liabilities with equity instruments" is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- HKFRS 1 "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters" is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it is not the first-time adopter.

- Amendment to HK(IFRIC)-Int-14 "Prepayments of a minimum funding requirement" is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- Third annual improvement project published by the HKICPA in May 2010.

  HKFRS 1 "First time Adoption of Hong Kong Financial Reporting Standards" is effective for annual periods beginning on or after 1 January 2011. This is not currently applicable to the Group, as it is not the first-time adopter.

  HK(IFRIC)-Int 13 "Customer loyalty programmes" is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have customer loyalty programmes.

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group

The Group's and the Company's assessmemt of the impact of these new and amended standards is set out below:

- HKFRS 7 (Amendment) "Disclosures – Transfers of financial assets". 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 Group is yet to assess HKFRS 7 (Amendment)'s full impact and intends to adopt HKFRS 7 (Amendment) no later than the accounting period beginning on or after 1 July 2011.

- HKFRS 9 "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group (continued)

- HKFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 7 (Amendment) "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities". The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group is yet to assess HKFRS 7 (Amendment)'s full impact and intends to adopt HKFRS 7 (Amendment) no later than the accounting period beginning on or after 1 January 2013.

- HKAS 32 (Amendment) "Financial instruments: Presentation – Offsetting financial assets and financial liabilities". The amendments clarify the requirements for offsetting financial instruments on the statement of financial position: (i) the meaning of 'currently has a legally enforceable right of set-off'; and (ii) that some gross settlement systems may be considered equivalents to net settlement. The Group is yet to assess HKAS 32 (Amendment)'s full impact and intends to adopt HKAS 32 (Amendment) no later than the accounting period beginning on or after 1 January 2014.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

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

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

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

(a) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2.3 Associates

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates (continued)

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

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

2.4 Joint venture

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

2.7 Property, plant and equipment

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment (continued)

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

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

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

2.8 Lease prepayments

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

2.9 Intangible assets

(i) Goodwill

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

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

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

(ii) Computer software

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

(iii) Proprietary technologies

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

2.10 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets

(a) Classification

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

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

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

(b) Recognition and measurement

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

(c) Offsetting financial instruments

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

(d) Impairment of financial assets

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

(d) Impairment of financial assets (continued)

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

2.12 Inventories

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Restricted cash

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

2.16 Ordinary shares

Ordinary shares are classified as equity.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Trade and other payables

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

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

2.18 Borrowings and borrowing costs

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

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

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

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

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

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

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

2.19 Derivatives financial instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Derivatives financial instruments (continued)

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

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (consolidated) instrument is not measured at fair value with changes in fair value recognized in the profit or loss.

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

2.20 Compound financial instruments

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

(a) The Series A convertible preferred shares

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

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

(b) The convertible bonds

In the situation when the convertible bonds are denominated in a currency other than the Company's functional currency, the instrument comprises a host debt instrument denominated in a foreign currency and a conversion option to exchange a fixed number of the Company's own equity instrument for a fixed amount of cash that is denominated in a foreign currency. The conversion option is not an equity instrument, but an embedded derivative that is not closely related to the host debt instrument, because the risk inherent in the derivative and the host are dissimilar. Therefore, the convertion option is separated and classified as a derivative liability.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

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

2.22 Employee benefits

(a) Pension obligations

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Employee benefits (continued)

(b) Housing benefits

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

(c) Pre-IPO share-based payment transaction

The Group established an equity-settled Pre-IPO share option plan to recognize the contribution made by the directors and the employees of the Group. The fair value of the contributions received in exchange for the grant of the options is recognized as an expense on a straight-line basis over the vesting period of each tranche. These share options are measured at fair value at grant day. In addition, in some circumstances, the directors and the employees may provide services in advance of the grant date and therefore, the grant date fair value is estimated for the purpose of recognising the expense during the period between service commencement period and grant date.

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

The grant by the Company of options over its equity instrument to the employees of subsidiary undertaking in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the grant date fair value, is recognized over vesting period, as an increase to investment is subsidiary undertakings, with a corresponding credit to equity.

2.23 Provision and contingent liabilities

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition

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

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

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

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

(b) Rendering of coating and oilfield service

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

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

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

(c) Interest income

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

(d) Dividend income

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

2.25 Government grants

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Operating leases (as a lessee)

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

2.27 Dividend distribution

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

2.28 Research and development

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2011, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB5,571,000 (2010: RMB2,143,000) higher/lower as a result of foreign exchange gains/losses on translation of RMB and USD denominated cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings.

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

As at 31 December 2011, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the Company's net profit for the year would have been RMB82,102,000 (2010: RMB26,495,000) higher/lower as a result of foreign exchange gains/losses on translation of RMB and USD denominated cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

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

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

As at 31 December 2011, if the Group's interest rate on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB486,000 (2010: RMB1,068,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

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

(b) Credit risk

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

All cash and cash equivalents, including restricted cash, were deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality. The table below shows the bank deposit balances of the major counterparties as at 31 December 2011.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Countparty	Rating	As at 31 December 2011 RMB'000	2010 RMB'000
Standard Chartered Bank	AA-*	**89,736**	133,069
China Merchants Bank	BBB+*	**66,640**	33,035
Bank of China	A*	**48,310**	30,438
Bank of Communication	A-	**32,780**	3,940
Tianjin City Commercial Bank	n.a.	**31,562**	–
China Construction Bank	A*	**25,083**	22,574
Industrial & Commercial Bank of China	A1**	**18,251**	5,354
Agricultural Bank of China	Ba3**	**11,567**	12,542

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

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

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

The Company's maximum exposure to credit risk in relation to its financial assets is the carrying amounts of cash and cash equivalents and trade and other receivables. All cash and cash equivalents were deposited in the high credit quality financial institutions, and the trade and other receivables were mainly due from related party. The directors of the Company do not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Group	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2011					
Borrowings	**582,956**	**–**	**263,091**	**–**	**846,047**
Interest payable on borrowing	**26,642**	**6,618**	**6,269**	**–**	**39,529**
Trade and other payables (except for advance from customers, staff salaries and welfare payables and other tax liabilities)	**521,129**	**–**	**–**	**–**	**521,129**
	1,130,727	**6,618**	**269,360**	**–**	**1,406,705**
As at 31 December 2010					
Borrowings	806,753	1,200	–	–	807,953
Interest payable on borrowing	27,492	525	–	–	28,017
Trade and other payables (except for advance from customers, staff salaries and welfare payables and other tax liabilities)	823,420	–	–	–	823,420
	1,657,665	1,725	–	–	1,659,390

Company	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2011					
Borrowings	**–**	**–**	**263,091**	**–**	**263,091**
Interest payable on borrowing	**6,618**	**6,618**	**6,269**	**–**	**19,505**
Trade and other payables	**3,837**	**–**	**–**	**–**	**3,837**
	10,455	**6,618**	**269,360**	**–**	**286,433**
As at 31 December 2010					
Borrowings	307,428	–	–	–	307,428
Interest payable on borrowing	4,314	–	–	–	4,314
Trade and other payables	3,982	–	–	–	3,982
	315,724	–	–	–	315,724

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

The gearing ratios as at 31 December 2011 and 2010 are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Total borrowings *(Note 18)*	**761,697**	804,624
Less: Cash and cash equivalents *(Note 15)*	**(322,429)**	(246,936)
Net debt	**439,268**	557,688
Total equity	**2,038,617**	905,609
Total capital	**2,477,885**	1,463,297
Gearing ratio	**17.73%**	38.11%

The decrease in the gearing ratio during the year ended 31 December 2011 is primarily resulted from issue of new shares pursuant to global initial public offering. The Group expected the gearing ratio would be between 20% and 40% in the future years.

3.3 Fair value estimation

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

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Except for the derivative financial instruments, the carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash and trade and other receivables, except for the prepayments, and financial liabilities including trade and other payables, except for the advance from customers, and current borrowings, approximate to their fair value due to their short maturity. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Current income taxes and deferred tax

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

(b) Useful lives of property, plant and equipment

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

(c) Impairment for receivables

The average credit period granted to customers is between 30 to 270 days. The trade and other receivables which are past due are analyzed in Note 14(b). In the opinion of the Group's directors, delay in receiving payments from the customers mainly attributed to unfavorable market conditions for oil and gas industry, delayed commencement of oil and gas exploratory or production activities due to various reasons beyond the Group's control under the background of global economic crisis. It does not indicate there is a financing transaction included in the sales contract. Accordingly, the Group did not recognize revenue by discounting the consideration receivable/received to present value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Impairment for receivables (continued)

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

(d) Estimated write-downs of inventories

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

(e) Fair value of derivative financial instruments

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

(f) Estimated impairment of goodwill

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

5 SEGMENT INFORMATION

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

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

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

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

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

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

- Coating materials production and coating service provision, including the production of coating materials for anticorrosive and anti-friction purpose and provision of coating services; and

- Oilfield services provision, including the provision of well drilling services to oil and gas producers.

(a) Revenues

The revenue of the Group for the years ended 31 December 2011 and 2010 are set out as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Drill pipes and related products	**891,400**	713,068
Coating materials and services	**505,638**	371,856
Oilfield services	**424,156**	271,538
	1,821,194	1,356,462

5 SEGMENT INFORMATION (continued)

(b) Segment information

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

	For the year ended 31 December 2011			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Revenue				
Segment revenue	960,531	567,497	424,156	1,952,184
Inter-segment sales	(69,131)	(61,859)	–	(130,990)
Revenue from external customers	891,400	505,638	424,156	1,821,194
Results				
Segment gross profit	371,409	206,198	169,003	746,610
Segment profit	210,674	123,835	86,504	421,013
Finance income				1,182
Finance costs				(46,748)
Share of losses of associates				(4,096)
Share of losses of jointly controlled entities				(6,754)
Profit before income tax				364,597
Other information				
Depreciation of property, plant and equipment	39,022	13,747	27,325	80,094
Amortization of lease prepayments	888	111	–	999
Amortization of intangible assets	238	218	–	456
Capital expenditure	108,467	24,572	226,006	359,045

	As at 31 December 2011			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	1,898,063	783,370	833,427	3,514,860
Investments in associates				53,539
Investments in jointly controlled entities				5,143
Total assets				3,573,542
Total liabilities	1,024,968	336,162	173,795	1,534,925

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2010 is as follows:

	For the year ended 31 December 2010			
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	767,652	416,965	271,538	1,456,155
Inter-segment sales	(54,584)	(45,109)	–	(99,693)
Revenue from external customers	713,068	371,856	271,538	1,356,462
Results				
Segment gross profit	261,417	187,010	108,179	556,606
Segment profit	153,527	127,772	39,156	320,455
Finance income				700
Finance costs				(30,476)
Share of profits of associates				1,258
Share of losses of jointly controlled entities				(16,756)
Profit before income tax				275,181
Other information				
Depreciation of property, plant and equipment	35,199	9,916	10,585	55,700
Amortization of lease prepayments	927	106	–	1,033
Amortization of intangible assets	24	238	4	266
Capital expenditure	26,102	42,793	134,237	203,132

	As at 31 December 2010			
Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	1,552,428	590,465	540,513	2,683,406
Investments in associates				78,811
Investments in jointly controlled entities				6,279
Total assets				2,768,496
Total liabilities	1,333,988	320,515	208,384	1,862,887

5 SEGMENT INFORMATION (continued)

(c) Geographical segments

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
The PRC	**994,924**	778,903
North and South America	**361,072**	250,801
Middle East	**247,258**	99,876
Russia and Central Asia	**159,826**	209,186
West Africa	**42,638**	–
Others	**15,476**	17,696
	1,821,194	1,356,462

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

	Carrying amount of segment assets As at 31 December	
	2011	2010
	RMB'000	RMB'000
The PRC	**733,964**	591,779
Middle East	**236,871**	72,472
North and South America	**155,248**	82,487
Russia and Central Asia	**53,334**	54,122
Africa	**72,435**	–
	1,251,852	800,860

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
The PRC	**206,358**	51,312
Middle East	**185,237**	74,205
North and South America	**90,538**	76,163
Africa	**76,804**	–
Russia and Central Asia	**11,802**	1,452
	570,739	203,132

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2010							
Cost	200,066	377,409	14,973	15,624	687	105,509	714,268
Accumulated depreciation	(24,425)	(67,818)	(5,712)	(7,890)	(409)	–	(106,254)
Net book amount	175,641	309,591	9,261	7,734	278	105,509	608,014
Year ended 31 December 2010							
Opening net book amount	175,641	309,591	9,261	7,734	278	105,509	608,014
Transferred from construction in progress	100	76,358	34	–	–	(76,492)	–
Additions	8,873	99,057	2,227	2,928	375	76,891	190,351
Disposals	–	(265)	(47)	(90)	–	–	(402)
Depreciation *(Note 21)*	(8,092)	(41,944)	(2,818)	(2,670)	(176)	–	(55,700)
Disposal of a subsidiary *(Note 33)*	(4,706)	–	(16)	(165)	–	–	(4,887)
Currency translation differences	–	(4,084)	–	–	–	–	(4,084)
Closing net book amount	171,816	438,713	8,641	7,737	477	105,908	733,292
At 31 December 2010							
Cost	199,938	548,430	16,970	17,316	1,062	105,908	889,624
Accumulated depreciation	(28,122)	(109,717)	(8,329)	(9,579)	(585)	–	(156,332)
Net book amount	171,816	438,713	8,641	7,737	477	105,908	733,292
Year ended 31 December 2011							
Opening net book amount	**171,816**	**438,713**	**8,641**	**7,737**	**477**	**105,908**	**733,292**
Transferred from construction in progress	**19,375**	**208,190**	**2,580**	**2,684**	**6,562**	**(239,391)**	**–**
Additions	**–**	**–**	**–**	**–**	**–**	**324,830**	**324,830**
Acquisition of Almansoori Hilong Petroleum Pipe Company *(Note 32(a))*	**41,386**	**75,102**	**887**	**829**	**–**	**–**	**118,204**
Acquisition of Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(Note 32(b))*	**–**	**9,317**	**96**	**425**	**–**	**264**	**10,102**
Acquisition of CNOOC Tube-Cote Tianjin Pipe Co., Ltd. *(Note 32(c))*	**15,259**	**9,671**	**69**	**263**	**–**	**2,468**	**27,730**
Disposals*(a)*	**(15,259)**	**(1,683)**	**(17)**	**(207)**	**–**	**–**	**(17,166)**
Depreciation *(Note 21)*	**(9,584)**	**(63,826)**	**(3,203)**	**(3,042)**	**(439)**	**–**	**(80,094)**
Currency translation differences	**–**	**(20,971)**	**(11)**	**(50)**	**–**	**–**	**(21,032)**
Closing net book amount	**222,993**	**654,513**	**9,042**	**8,639**	**6,600**	**194,079**	**1,095,866**
At 31 December 2011							
Cost	**260,699**	**825,463**	**20,518**	**21,003**	**7,624**	**194,079**	**1,329,386**
Accumulated depreciation	**(37,706)**	**(170,950)**	**(11,476)**	**(12,364)**	**(1,024)**	**–**	**(233,520)**
Net book amount	**222,993**	**654,513**	**9,042**	**8,639**	**6,600**	**194,079**	**1,095,866**

(a) In 2011, the Group acquired additional equity interest in CNOOC Tube-Cote Tianjin Pipe Co., Ltd. (Note 32(c)). After the acquisition, CNOOC Tube-Cote Tianjin Pipe Co., Ltd. became a subsidiary of the Group and relocated the manufacturing facility. As a result, property, plant and equipment with a net book amount of RMB15,497,000 were sold to the original shareholder.

6 PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2011, certain buildings and facilities with carrying amount of RMB172,707,000 (31 December 2010: certain buildings and facilities with carrying amount of RMB88,411,000 and certain machinery and equipment with carrying amount of RMB87,906,000) were pledged as collaterals for the Group's borrowings (Note 18(a)(i), (iv), (vi)).

As at 31 December 2010, certain machinery and equipment with carrying amount RMB69,298,000 were secured for the Group's Series A convertible preferred shares (Note 18(b)).

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cost of sales	**69,152**	40,249
Administrative expenses	**10,695**	15,227
Selling and marketing expenses	**247**	224
	80,094	55,700

7 LEASE PREPAYMENTS

Group

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Outside of Hong Kong:		
– Lease of 50 years	**86,589**	55,788

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Opening net book value	**55,788**	45,691
Additions	**31,800**	12,765
Amortization charges *(Note 21)*	**(999)**	(1,033)
Disposal of a subsidiary *(Note 33)*	**–**	(1,635)
Closing net book value	**86,589**	55,788

As at 31 December 2011, certain land use right with a carrying amount of RMB38,859,000 (31 December 2010: RMB39,747,000) was pledged as collaterals for the Group's borrowings (Note 18(a)(i), (vi)).

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

As at 31 December 2011, the land use right certificate of Shanghai Hilong Special Steel Pipe Co., Ltd. has not yet been obtained.

8 INTANGIBLE ASSETS

Group

	Goodwill (a) RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2010				
Cost	11,203	3,137	1,212	15,552
Accumulated amortization	–	(781)	(644)	(1,425)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	11,203	259	568	12,030
Year ended 31 December 2010				
Opening net book amount	11,203	259	568	12,030
Additions	–	–	16	16
Amortization charge *(Note 21)*	–	(57)	(209)	(266)
Closing net book amount	11,203	202	375	11,780
At 31 December 2010				
Cost	11,203	3,137	1,228	15,568
Accumulated amortization	–	(838)	(853)	(1,691)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	11,203	202	375	11,780
Year ended 31 December 2011				
Opening net book amount	**11,203**	**202**	**375**	**11,780**
Additions	**–**	**–**	**2,415**	**2,415**
Acquisition of Almansoori Hilong Petroleum Pipe Company *(Note 32(a))*	**49,896**	**–**	**–**	**49,896**
Acquisition of Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(Note 32(b))*	**3,928**	**–**	**–**	**3,928**
Acquisition of CNOOC Tube-Cote Tianjin Pipe Co., Ltd. *(Note 32(c))*	**1,834**	**–**	**–**	**1,834**
Amortization charge *(Note 21)*	**–**	**(95)**	**(361)**	**(456)**
Closing net book amount	**66,861**	**107**	**2,429**	**69,397**
At 31 December 2011				
Cost	**66,861**	**3,137**	**3,643**	**73,641**
Accumulated amortization	**–**	**(933)**	**(1,214)**	**(2,147)**
Impairment provision	**–**	**(2,097)**	**–**	**(2,097)**
Net book amount	**66,861**	**107**	**2,429**	**69,397**

8 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill

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

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

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Drill pipes and related products	**49,896**	–
Coating materials and services	**16,965**	11,203
	66,861	11,203

As described in Note 2.9 and Note 2.10, goodwill is reviewed for impairment annually. The recoverable amount of the CGU is determined based on the higher of the fair value less cost to sell or its value-in-use estimate. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount even if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Cost of sales	**2**	46
Administrative expenses	**454**	220
	456	266

9 INVESTMENTS IN ASSOCIATES

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Beginning of year	**78,811**	63,782
Acquisition of equity interest in an associate *(Note 25(a))*	**–**	13,795
Increase in investments in an associate	**–**	4,500
Share of associates' results	**(4,096)**	1,258
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in CNOOC Tube-Cote Tianjin Pipe Co., Ltd. *(Note 32(c))*	**(11,528)**	–
Disposal of 15% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. *(Note 25(b))*	**(4,839)**	–
Dividends declared	**(4,809)**	(4,524)
End of year	**53,539**	78,811

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

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principle activities
			2011	2010	
Nantong Hilong Steel Pipe Co., Ltd.	30 April 2007, Jiangsu, the PRC	RMB105,880,000	**41%**	41%	Manufacturing and distribution of special steel
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	12 February 2007, Shandong, the PRC	RMB20,000,000	**30%**	45%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	22 November 2010, Liaoaning, the PRC	RMB15,000,000	**30%**	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	20 November 2004, Shanxi, the PRC	RMB18,000,000	**22.95%**	22.95%	Coating service provision
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.*	18 September 2006, Tianjin, the PRC	RMB20,000,000	**–**	20.4%	Coating service provision

* The Group accounted for investments in CNOOC Tube-Cote Tianjin Pipe Co., Ltd. as an investment in an associate in 2010. In 2011, the Group acquired further equity interests in this company. After the acquisition, this company became a subsidiary of the Group. Details see Note 32(c).

9 INVESTMENTS IN ASSOCIATES (continued)

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

Name	Assets	Liabilities	Revenues	(Loss)/ Profit	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011	**130,689**	**77,150**	**107,920**	**(4,096)**	**53,539**
Year ended 31 December 2010	109,294	30,483	55,941	1,258	78,811

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

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Investments and long-term receivables due from Almansoori Hilong Petroleum Pipe Company *(a)*	**–**	–
Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(b)*	**–**	6,279
Investments and long-term receivables due from Hilong Temerso Co., Ltd. *(c)*	**5,143**	–
	5,143	6,279

The particulars of the jointly controlled entities of the Group, which are unlisted, are set out as follows:

(a) Investments and a long-term receivable in Almansoori Hilong Petroleum Pipe Company

The Group has a long-term receivable to Almansoori Hilong Petroleum Pipe Company, which is interest-free and does not have fixed payment term. As the Group is neither planned nor likely to settle the long-term receivable in the foreseeable future, the Group regards the long-term receivable as a net investment in Almansoori Hilong Petroleum Pipe Company.

In 2011, the Group acquired further equity interests in this company. After the acquisition, the Group owned 100% equity interest in Almansoori Hilong Petroleum Pipe Company and therefore regarded Almansoori Hilong Petroleum Pipe Company as a subsidiary of the Group. Details see Note 32(a).

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

(a) Investments and a long-term receivable in Almansoori Hilong Petroleum Pipe Company (continued)

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Beginning of year	**–**	11,442
Increase in investments in the jointly controlled entity	**9,091**	8,844
Share of the jointly controlled entity's result	**(10,207)**	(18,706)
Realization/(Elimination) of unrealized profit	**1,620**	(1,620)
Currency translation differences	**1,116**	40
Transfer from investment in a jointly controlled entity to investment in a subsidiary upon acquisition of additional equity interest in Almansoori Hilong Petroleum Pipe Company *(Note 32(a))*	**(1,620)**	–
End of year	**–**	–

(b) Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

The Group accounted for investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. as investments in jointly controlled entities in 2010. In 2011, the Group acquired further equity interests in this company. After the acquisition, the Group has the power to govern the financial and operating policies of this company by securing a majority voting rights in the meeting of Board of Directors. Therefore, this company is regarded as subsidiary of the Group since 2011. Details see Note 32(b).

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Beginning of year	**6,279**	4,067
Share of the jointly controlled entity's result	**3,970**	1,950
Realization of unrealized profit	**1,181**	262
Transfer from investment in a jointly controlled entity to investment in a subsidiary upon acquisition of additional equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(Note 32(b))*	**(11,430)**	–
End of year	**–**	6,279

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

(c) Investments and a long-term receivable in Hilong Temerso Co., Ltd.

The Group invested in Hilong Temerso Co., Ltd. at a cash consideration of equivalent RMB118,000 and owned 56% of the equity interest. The Group also has a long-term receivable from Hilong Temerso Co., Ltd. of USD1,128,000 (equivalent RMB7,108,000), which do not have a fixed payment term. As the Group does not plan to settle the long-term receivable in the foreseeable future, the Group regards the long-term receivable as a net investment in Hilong Temerso Co., Ltd..

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Beginning of year	**–**	–
New investments in the jointly controlled entity	**7,226**	–
Share of the jointly controlled entity's result	**(517)**	–
Elimination of unrealized profit	**(1,566)**	–
End of year	**5,143**	–

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

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principal activities
			2011	2010	
Hilong Temerso Co., Ltd.	23 August 2011, Russia	RBL1,000,000	**56%**	n.a.	Coating service provision
Almansoori Hilong Petroleum Pipe Company *(a)*	6 November 2006, Emirate of Abu Dhabi	AED1,000,000	**–**	49%	Manufacturing and servicing of drill pipes and coating
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(b)*	13 January 2009, Liaoning, the PRC	RMB10,000,000	**–**	50%	Coating service provision

Name	Assets	Liabilities	Revenues	Loss	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011	**22,567**	**17,424**	**53,571**	**(6,754)**	**5,143**
Year ended 31 December 2010	102,908	96,629	20,431	(16,756)	6,279

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

11 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES

Group

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**29,026**	39,106
– to be recovered after more than 12 months	**31,806**	(1,555)
	60,832	37,551
Deferred income tax liabilities:		
– to be recovered within 12 months	**–**	–
– to be recovered after more than 12 months	**(86,951)**	(77,061)
	(86,951)	(77,061)

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

Deferred income tax assets	**Tax losses carried forward**	**Impairment provision on assets**	**Accruals**	**Unrealized profit (a)**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	4,559	6,500	1,021	12,222	1,781	26,083
Credit/(charged) to the consolidated income statement	289	(8)	116	12,719	170	13,286
At 31 December 2010	4,848	6,492	1,137	24,941	1,951	39,369
Credit/(charged) to the consolidated income statement	4,465	2,565	14	18,671	(1,357)	24,358
At 31 December 2011	9,313	9,057	1,151	43,612	594	63,727

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

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize cumulative deferred income tax assets of RMB5,782,000 as at 31 December 2011 (31 December 2010: RMB2,258,000) in respect of the accumulated tax losses of certain subsidiaries incorporated in the PRC. Carrying forward of these tax losses will expire, if unused, in the years ending 31 December 2012 to 2016.

11 DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES (continued)

Deferred income tax liabilities	Withholding taxation of the unremitted earnings of certain subsidiaries (Note 27)	Gain on remeasuring existing equity interest in certain associate and jointly controlled entities on acquisition	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2010	(60,991)	(1,818)	(62,809)
Charged to the consolidated income statement	(16,070)	–	(16,070)
At 31 December 2010	(77,061)	(1,818)	(78,879)
Charged to the consolidated income statement	(9,890)	(1,077)	(10,967)
At 31 December 2011	(86,951)	(2,895)	(89,846)

12 INVESTMENT IN SUBSIDIARIES

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Investment, at cost:		
Unlisted shares	**–**	–
Capital contribution relating to share-based payment	**11,214**	–
	11,214	–

(a) Detail of the subsidiaries of the Group as at 31 December 2011 and 2010 are set out in Note 36.

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

13 INVENTORIES

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials	**186,417**	135,118
Work in progress	**29,628**	54,581
Finished goods	**281,212**	166,791
Packing materials	**532**	452
Low value consumables	**11,721**	8,580
	509,510	365,522

The cost of inventories recognized as cost of sales amounted to approximately RMB808,052,000 for the year ended 31 December 2011 (2010: RMB626,374,000).

In 2011, the Group reversed RMB10,220,000 of inventory provision write-down brought forward from prior years because some obsolete raw materials were used in the production. The amount reversed has been included in 'cost of sales' in the consolidated income statement (Note 21). As at 31 December 2011, the inventory provision was RMB26,664,000 (31 December 2010: RMB36,884,000).

14 TRADE AND OTHER RECEIVABLES

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Bills receivable *(a)*	**31,878**	5,727
Trade receivables *(b)*		
– Due from related parties *(Note 34(c))*	**59,350**	55,025
– Due from third parties	**968,580**	710,648
Less: provision for impairment of receivables *(d)*	**(11,033)**	(11,033)
Trade receivables – net	**1,016,897**	754,640
Other receivables *(c)*	**99,594**	336,271
Prepayments	**164,514**	83,110
Trade and other receivables – net	**1,312,883**	1,179,748

As at 31 December 2011 and 2010, the fair value of the trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

14 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2011, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
– RMB	**1,043,325**	996,289
– USD	**225,720**	131,655
– NGN	**14,750**	–
– CAD	**11,903**	36,354
– KZT	**10,083**	15,361
– HK$	**4,081**	–
– AED	**3,021**	86
– IDR	**–**	3
	1,312,883	1,179,748

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**602,677**	444,062
– Over 90 days and within 180 days	**213,645**	202,662
– Over 180 days and within 360 days	**109,046**	50,981
– Over 360 days and within 720 days	**75,107**	37,369
– Over 720 days	**27,455**	30,599
	1,027,930	765,673

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 service. This provision has been determined by reference to past default experience.

As at 31 December 2011, trade receivables of RMB11,033,000 (31 December 2010: RMB11,033,000) were impaired and fully provided for impairment loss. The individually impaired receivables mainly relate to certain oversea customers, which are in unexpectedly difficult economic situations.

As at 31 December 2011, trade receivables of RMB10,694,000 (31 December 2010: trade receivables of RMB178,411,000 and other assets) were pledged as collaterals for the Group's borrowing (Note 18(a)(ii), (iv)).

14 TRADE AND OTHER RECEIVABLES (continued)

(b) (continued)

As at 31 December 2011, trade receivables of RMB414,220,000 (31 December 2010: RMB310,578,000) were past due but not impaired. These relate to the customers that are state-owned companies which have good trading records with the Group. Based on the past experiences, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
– Within 90 days	**213,645**	202,662
– Over 90 days and within 180 days	**74,423**	46,633
– Over 180 days and within 360 days	**76,456**	31,515
– Over 360 days and within 720 days	**39,897**	10,558
– Over 720 days	**9,799**	19,210
	414,220	310,578

(c) Details of other receivables are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Due from related parties *(Note 34(c))*	**55,740**	297,072
Staff advance	**14,221**	8,349
Value added tax refund	**11,074**	21,693
Due from non-controlling interests	**6,000**	–
Others	**12,559**	9,157
	99,594	336,271

14 TRADE AND OTHER RECEIVABLES (continued)

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
At beginning of the year	**(11,033)**	(11,522)
Reversal of impairment *(Note 21)*	**–**	489
At the end of the year	**(11,033)**	(11,033)
	99,594	336,271

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Other receivables due from related parties *(Note 34(c))*	**967,933**	264,949
Dividends receivable *(Note 34(c))*	**217,397**	–
Prepayments *(a)*	**2,282**	–
Trade and other receivables – net	**1,187,612**	264,949

(a) As at 31 December 2011, prepayments mainly represented the prepayments for share repurchase in January 2012 of RMB1,844,000.

As at 31 December 2011 and 2010, the fair value of the trade and other receivables of the Company, except for the prepayments which are not financial assets, approximated their carrying amounts.

The ageing analysis of trade and other receivables as at 31 December 2011 and 2010 was as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade and other receivables, gross		
– Within 360 days	**935,537**	264,949
– Over 360 days and within 720 days	**252,075**	–
	1,187,612	264,949

14 TRADE AND OTHER RECEIVABLES (continued)

(a) (continued)

As at 31 December 2011, the carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
– USD	**820,947**	264,949
– RMB	**217,397**	–
– HK$	**149,268**	–
	1,187,612	264,949

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cash at bank and in hand *(a)*	**379,230**	299,506
Less: Restricted cash *(b)*	**(56,801)**	(52,570)
Cash and cash equivalents	**322,429**	246,936

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cash at bank and in hand are denominated in:		
– RMB	**236,497**	145,845
– HK$	**65,090**	33,728
– USD	**58,347**	115,656
– KZT	**8,674**	3,668
– CAD	**3,732**	–
– NGN	**3,594**	–
– AED	**3,256**	457
– EURO	**40**	42
– IDR	**–**	110
	379,230	299,506
Restricted cash is denominated in:		
– RMB	**54,227**	48,357
– KZT	**2,221**	49
– USD	**353**	4,164
	56,801	52,570

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

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

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

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

Company

As at 31 December 2011, cash and cash equivalents of the Company are not restricted and denominated in HK$ of RMB77,418,000 and USD of RMB3,911,000, respectively (31 December 2010: denominated in HK$ of RMB33,728,000).

16 ORDINARY SHARES

Group and Company

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

16 ORDINARY SHARES (continued)

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

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

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

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

(e) On 21 April 2011, the Company completed its global initial public offering of shares by issuing 400,000,000 shares of HK$0.1 each at a price of HK$2.6 per share. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on the same date. The listing proceeds to the Company, 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.

(f) On 21 April 2011, the successful initial public offering date, all the obiligations to deliver cash or another financial assets were discharged (Note 18(b)), 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.

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

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

17 OTHER RESERVES

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Statutory reserve *(1)*	**83,787**	76,395
Merger reserve *(2)*	**(163,074)**	(158,820)
Share options reserve *(3)*	**11,214**	–
Share premium *(Note 16(e), (f), (g)), (4)*	**849,045**	–
Capital redemption reserve *(4)*	**388**	–
Capital reserve *(5)*	**(38,653)**	97
	742,707	(82,328)

(1) Statutory reserve

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

For the years ended 31 December 2011, RMB7,392,000 (2010: RMB11,596,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

(2) Merger reserve

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Beginning of year	**(158,820)**	146,063
Contribution to subsidiaries by their then equity owners *(a)*	**5,275**	6,044
Consideration paid to the then equity owners for acquisition or disposal of subsidiaries under common control *(b)*	**(9,529)**	(310,927)
End of year	**(163,074)**	(158,820)

(a) Contribution to subsidiaries by their then equity owners

Contribution to subsidiaries by their then equity owners in 2011 represented 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.

Contribution to subsidiaries by their then equity owners in 2010 represented cash injection by Hailong International in Shanxi Tangrong Hilong Drill Tools Co., Ltd. of RMB6,044,000, which reflected as a deemed capital injection to the Group by the Controlling Shareholder.

17 OTHER RESERVES (continued)

(2) Merger reserve (continued)

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

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

Consideration paid to the then equity owners for acquisition or disposal of subsidiaries under common control in 2010 represented: (1) the acquisition by Hilong Energy Limited of 25% equity interest in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd., 25% equity interest in Shanxi Tangrong Hilong Drill Tools Co., Ltd., 17.18% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and 25% equity interest in Shanghai Hilong Drill Pipe Co., Ltd. from Hailong International of RMB40,888,000; (2) the acquisition by Hilong Energy Limited of 100% equity interest in Hilong Group of Companies Ltd. from Hailong International of RMB269,024,000; (3) the acquisition by Hilong Energy Limited of 100% equity interest in Hilong Investement from Hailong International of RMB667,000; and (4) the disposal 75% equity interest in Tianjin Shuanghai Petroleum Steel's Pipe Co., Ltd. to Huashi Hailong with a disposal loss of RMB348,000.

(3) Share options reserve

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

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

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

As at 31 December 2011, no share option was exercised (Expiry date: 21 April 2021).

17 OTHER RESERVES (continued)

(3) Share options reserve (continued)

The share options outstanding as at 31 December 2011 have the following vesting dates and exercise prices:

	Year ended 31 December 2011		
Vesting date	**Exercise price (per share in HK$)**	**Exercise price (equivalent to RMB)**	**Outstanding shares**
21 April 2012	2.60	2.11	9,103,800
21 April 2013	2.60	2.11	9,103,800
21 April 2014	2.60	2.11	9,103,800
21 April 2015	2.60	2.11	9,103,800
21 April 2016	2.60	2.11	9,103,800
			45,519,000

The fair value of the Pre-IPO share options granted during the year ended 31 December 2011 have 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

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Cost of sales	**1,822**	–
Administrative expenses	**7,861**	–
Selling and marketing expenses	**1,531**	–
	11,214	–

17 OTHER RESERVES (continued)

(4) Capital redemption reserve

According to a resolution passed in the 2011 annual general meeting, the directors of the Company are authorised to approve the repurchase of the Company's share through the Stock Exchange of Hong Kong Limited or any other stock exchange on which the securities of the Company may be listed, with an aggregate number not exceeding 160,000,000 shares. During the year ended 31 December 2011, the Company repurchased 4,784,000 ordinary shares in the market through the Stock Exchange of Hong Kong Limited at an aggregated consideration of HK$6,725,000 (equivalent to RMB5,452,000). The share repurchase was approved by the Board of Directors on 9 December 2011. The details are as follows:

Date of repurchase	Total number of ordinary shares purchased	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate consideration (HK$)
12 December 2011	1,313,000	1.42	1.30	1,831,000
13 December 2011	355,000	1.42	1.39	504,000
14 December 2011	1,009,000	1.43	1.38	1,415,000
15 December 2011	940,000	1.43	1.38	1,326,000
16 December 2011	1,167,000	1.44	1.37	1,649,000
	4,784,000			6,725,000

All of the shares repurchased during the year were cancelled on delivery of the shares certificates and the nominal value of such cancelled shares of RMB388,000 was credited to capital redemption reserve and paid out from the Company's retained earnings, and the relevant premium of RMB5,064,000 was paid out from the Company's share premium (Note 16(h)). The remaining shares were repurchased and cancelled in January 2012.

(5) Capital reserve

The decrease in capital reserve of RMB38,750,000 refer to Note 35.

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Share premium *(Note 16(e), (f), (g)), (4)*	**849,045**	–
Capital redemption reserve *(4)*	**388**	–
Share options reserve *(3)*	**11,214**	–
	860,647	–

18 BORROWINGS

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current		
Bank borrowing – unsecured	**1,200**	5,900
Convertible bonds *(d)*	**178,741**	–
Related party borrowing *(c)*	**–**	10,565
Less: Current portion of non-current borrowings	**(1,200)**	(15,265)
	178,741	1,200
Current		
Bank borrowings – secured *(a)*	**267,306**	401,758
Bank borrowings – unsecured	**306,574**	217,000
Related party borrowing *(c)*	**7,876**	–
Series A convertible preferred shares *(b)*	**–**	169,401
Current portion of non-current borrowing	**1,200**	15,265
	582,956	803,424
	761,697	804,624

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bank borrowings:		
– RMB	**506,184**	665,301
– HK$	**178,741**	128,758
– AED	**68,896**	–
– USD	**7,876**	10,565
	761,697	804,624

18 BORROWINGS (continued)

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

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
As at 31 December 2011	**582,956**	**–**	**178,741**	**761,697**
As at 31 December 2010	804,624	–	–	804,624

The maturity of borrowings is as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
On demand or within 1 year	**582,956**	803,424
Between 1 and 2 years	**–**	1,200
Between 2 and 5 years	**178,741**	–
	761,697	804,624

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Borrowings – current		
– RMB	**6.88%**	5.78%
– USD	**10%**	–
– AED	**6%**	–
– HKD	**–**	6.5%
Borrowings – non-current		
– RMB	**5.31%**	5.31%
– HK$	**17.19%**	n.a.
– USD	**n.a.**	10%

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

18 BORROWINGS (continued)

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Carrying amount		
Convertible bonds	**178,741**	–
Bank borrowings	**–**	1,200
	178,741	1,200

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Fair value		
Convertible bonds	**178,741**	–
Bank borrowings	**–**	1,124
	178,741	1,124

The fair value of bank borrowings is based on cash flows discounted using the annual interest rate published by the People's Bank of China. The fair value of convertible bonds is based on cash flows discounted using the discount rate by reference to similar public companies. The fair value of convertible bonds approximated its carrying amount because the bonds were issued close to the year end.

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB facilities	**64,000**	–

18 BORROWINGS (continued)

(a) Bank borrowings – secured

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Secured by property, plant and equipment and land use rights *(i)*	**226,323**	7,000
Secured by accounts receivables *(ii)*	**26,000**	–
Secured by bank deposit *(iii)*	**14,983**	10,000
Secured by property, plant and equipment, accounts receivables and guaranteed by related parties *(iv)*	**–**	128,758
Guaranteed by related parties *(v)*	**–**	140,000
Secured by property, plant and equipment and land use rights and guaranteed by related parties *(vi)*	**–**	116,000
	267,306	401,758

i. The bank borrowings of RMB226,323,000 were secured by certain buildings and facilities (Note 6) and land use rights (Note 7) of the Group, with the carrying amount of RMB172,707,000 and RMB38,859,000, respectively, as at 31 December 2011 (31 December 2010: the bank borrowings of RMB7,000,000 were secured by certain buildings and facilities (Note 6) and land use rights (Note 7) of the Group, with aggregate carrying amount of RMB3,871,000);

ii. The bank borrowings of RMB26,000,000 were secured by certain trade receivables with carrying amount of RMB10,694,000 (Note 14) as at 31 December 2011 (31 December 2010:nil);

iii. The bank borrowings of RMB14,983,000 were secured by certain bank deposit (Note 15(b)) of the Group, with carrying amount of RMB8,000,000 as at 31 December 2011 (31 December 2010: the bank borrowings of RMB10,000,000 were secured by certain bank deposit (Note 15(b)) of the Group, with carrying amount of RMB5,000,000);

iv. The bank borrowings of RMB128,758,000 were guaranteed by Mr. Zhang Jun, and secured by certain machinery and equipment with carrying amount of RMB87,906,000 (Note 6) and certain trade receivables with carrying amount of RMB178,411,000 (Note 14) of the Group as at 31 December 2010;

v. The bank borrowings of RMB100,000,000 were guaranteed by Mr. Zhang Jun as at 31 December 2010; and the bank borrowings of RMB40,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun as at 31 December 2010; and

vi. The bank borrowings of RMB116,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun, and secured by certain buildings and facilities (Note 6) and land use rights (Note 7) of the Group, with aggregate carrying amount of RMB124,287,000 as at 31 December 2010.

18 BORROWINGS (continued)

(b) Series A convertible preferred shares

On 23 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 convertible preferred shares issued by the Company at a price of RMB3,595 per share with total amount of RMB167,890,000. The significant terms of Series A convertible preferred shares are summarized as follows:

i. Dividends

The holder of Series A convertible preferred shares would be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to 8% of the purchase price per annum.

ii. Conversion

Unless otherwise agreed by the parties, the holder of Series A convertible preferred shares shall convert all of its Series A convertible preferred shares into ordinary shares before the Company submits its listing application on the Main Board of the Stock Exchange of Hong Kong Limited ("HKSE"). The conversion price will be the purchase price of RMB3,595 per share, resulting in an initial conversion ratio of 1-for-1. The series A Convertible preferred shares were converted into ordinary shares on 31 January 2011.

iii. Re-conversion

Unless otherwise agreed by the Parties, the holder of Series A convertible preferred shares shall re-convert all of its ordinary shares to Series A convertible preferred shares if its listing application is not acceptable to or is rejected by the HKSE. The re-conversion price will be the conversion price of RMB3,595 per share, resulting in an re-conversion ratio of 1-for-1.

iv. Redemption

At any time commencing on the Series A convertible preferred shares issue date, provided a redemption event has occurred, which is defined in the master investment agreement, UMW CV has the right to sell to the Company, and the Company shall be obliged to redeem the Series A shares. Upon the successful Initial Public Offering ("IPO"), the redemption option shall cease to have any effect.

Redemption amount is equal to the principal amount of the subscription to be redeemed, plus the agreed interest of 20% per annum, minus any actually paid returns to Series A convertible preferred shares.

The redemption events are summarized as follows:

– IPO has not occurred on or before 30 June, 2011;

– Prior to IPO, Mr. Zhang Jun, the Controlling Shareholder, and/or Hilong Group Ltd. sell or transfer, in one or more transactions, greater than 20% (20% not inclusive) of the share capital of the Company owned by it on the date hereof to one or more third parties; or

– Prior to IPO, in one or more transactions, greater than 25% equity interest of Hilong Group of Companies Co., Ltd. has been transferred on the date hereof to one or more third parties.

The redemption price is not approximately equal on exercise date to the amortised cost of the host debt instrument, so the redemption feature is not closely related to the host contract. The conversion/re-conversion features are not closed to the host contract as it involves a put of both the debt host and the derivative conversion feature. Accordingly, these features shall be bifurcated and separately accounted for as derivative financial instruments. As these derivatives are inter-dependent, they shall be bundled together and treated as a single compound embedded derivative. The fair value of the derivatives is measured by using valuation techniques (Note 3.3).

18 BORROWINGS (continued)

(b) Series A convertible preferred shares (continued)

The liability component is measured as the residual amount after separating the fair value of derivatives as mentioned above. The liability component is reflected as borrowings in the consolidated financial statements and the effective interest rate is 10.37%.

The movement for Series A convertible preferred shares after its issuance is as follows:

	The liability component (Borrowings)	Derivative financial instruments	Total
	RMB'000	RMB'000	RMB'000
As at 26 August 2010 (Issuance date)	164,800	3,090	167,890
Changes in fair value *(Note 25)*	–	(2,957)	(2,957)
Amortization using the effective interest method *(Note 26)*	4,601	–	4,601
As at 31 December 2010	169,401	133	169,534
Changes in fair value *(Note 25)*	–	(133)	(133)
Amortization using the effective interest method *(Note 26)*	6,545	–	6,545
Settled by cash	(5,814)	–	(5,814)
Converted into ordinary shares and share premium *(Note 16(f))*	(170,132)	–	(170,132)
As at 31 December 2011	–	–	–

The Series A convertible preferred shares was secured by certain machinery and equipment (Note 6) of the Group, with total carrying amount of RMB69,298,000 as at 31 December 2010.

(c) Related party borrowing

Related party borrowing represented loans borrowed from Hailong International, which are unsecured, interest free, repayable within 1 year. The related party borrowing was recognized initially at its fair value and subsequent measured at amortized cost using effective interest method (Note 26).

(d) 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 (Note 2.20).

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

18 BORROWINGS (continued)

(d) Convertible bonds (continued)

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

	The liability component (Borrowings) RMB'000	**Derivative financial instruments** RMB'000	**Total** RMB'000
As at 9 December 2011 (Issuance date)	176,464	12,810	189,274
Amortization using the effective interest method *(Note 26)*	2,277	–	2,277
As at 31 December 2011	178,741	12,810	191,551

There is no change in fair value of the derivative financial instruments because the convertible bonds were issued close to the year end.

Company

	As at 31 December	
	2011 **RMB'000**	2010 RMB'000
Non-Current		
Convertible bonds *(d)*	**178,741**	–
Current		
Bank borrowings – secured *(a)(iv)*	**–**	128,758
Series A convertible preferred shares *(b)*	**–**	169,401
	178,741	298,159

19 DEFERRED REVENUE

Group

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

	As at 31 December	
	2011 **RMB'000**	2010 RMB'000
Current – relating to certain research projects	**400**	405
Non-current – relating to certain production lines	**20,250**	13,650
	20,650	14,055

20 TRADE AND OTHER PAYABLES

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bills payable	**103,195**	98,176
Trade payables:		
– Due to related parties *(Note 34(c))*	**10,135**	41,256
– Due to third parties	**312,406**	239,797
Other payables:		
– Due to related parties *(Note 34(c))*	**33,900**	319,301
– Due to third parties	**44,331**	67,759
Staff salaries and welfare payables	**32,328**	10,098
Advance from customers	**39,448**	96,084
Interest payables	**1,764**	475
Accrued taxes other than income tax	**28,373**	23,820
Dividends payable	**13,078**	51,852
Other liabilities	**2,320**	4,804
	621,278	953,422

As at 31 December 2011 and 2010, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2011 and 2010, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
– RMB	**529,942**	714,575
– USD	**75,963**	233,121
– AED	**7,821**	–
– HK$	**4,175**	–
– CAD	**1,817**	–
– KZT	**972**	5,726
– NGN	**588**	–
	621,278	953,422

20 TRADE AND OTHER PAYABLES (continued)

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables, gross		
– Within 90 days	**220,953**	195,316
– Over 90 days and within 180 days	**20,940**	26,855
– Over 180 days and within 360 days	**19,739**	1,694
– Over 360 days and within 720 days	**13,526**	5,411
– Over 720 days	**47,383**	51,777
	322,541	281,053

Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Other payables due to third parties *(a)*	**3,837**	3,982

(a) As at 31 December 2011, other payables mainly represented the accrued transaction costs for the business combination (31 December 2010: fees payable on the establishment of loan facility).

As at 31 December 2011 and 2010, all trade and other payables of the Company were non-interest bearing, and their fair value approximate their carrying amounts due to their short maturities.

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

As at 31 December 2011, trade and other payables of the Company were denominated in USD (31 December 2010: denominated in HK$).

21 EXPENSES BY NATURE

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress *(Note 13)*	**(89,467)**	(31,039)
Raw materials and consumable used *(Note 13)*	**897,519**	657,413
Employee benefit expenses *(Note 22)*	**190,006**	113,239
Depreciation *(Note 6)*	**80,094**	55,700
Transportation expenses	**77,215**	48,926
Utilities and electricity	**70,183**	55,760
Research and development expense	**35,618**	27,617
Entertainment expenses	**32,670**	27,246
IPO expense	**23,122**	8,518
Travelling and communication expenses	**21,403**	16,637
Marketing and promotion expenses	**20,071**	16,051
Consulting expenses	**17,940**	13,797
Operating lease payments	**16,036**	13,008
Sales commission and staff's travelling and lodging expense	**15,569**	9,560
Taxes and levis	**15,210**	7,592
Auditor's remuneration		
– Audit services	**3,000**	4,454
– Non-audit services	**389**	–
Amortization of lease prepayments *(Note 7)*	**999**	1,033
Amortization of intangible assets *(Note 8)*	**456**	266
Reversal for provision for inventory write-down *(Note 13)*	**(10,220)**	–
Reversal for impairment provision of receivables *(Note 14)*	**–**	(489)
Miscellaneous	**7,192**	5,803
Total cost of sales, selling and marketing and administrative expenses	**1,425,005**	1,051,092

22 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Wages and salaries	**154,719**	93,871
Social security costs	**24,073**	19,368
Share options *(Note 17(3))*	**11,214**	–
	190,006	113,239

23 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Group

(a) Director's emoluments

Director's emoluments for the years ended 31 December 2011 and 2010 are set out as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Director's fees	**300**	–
Basic salaries and allowances	**4,581**	860
Discretionary bonus	**2,172**	187
Social security costs	**255**	65
Share options *(Note 17(3))*	**1,553**	–
	8,861	1,112

No director has waived or agreed to waive any emoluments.

23 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Director's emoluments (continued)

Director's emoluments are set out below:

	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Social security costs RMB'000	Share options RMB'000	Total RMB'000
Year ended 31 December 2011						
Executive Directors						
Zhang Jun (張軍)	–	1,176	674	55	148	2,053
Zhang Shunman (張姝嫚)	–	726	–	16	148	890
Ji Min (紀敏)	–	999	319	60	197	1,575
Non-executive Director						
Yuan Pengbin (袁鵬斌)	–	840	597	60	530	2,027
Wang Tao (汪濤)	–	840	582	64	530	2,016
Datuk Syed Hisham	–	–	–	–	–	–
Li Huaiqi (李懷奇)*	–	–	–	–	–	–
Independent Non-executive Directors						
Liu Qihua (劉奇華)	100	–	–	–	–	100
Wang Tao (王濤)	100	–	–	–	–	100
Lee Siang Chin	100	–	–	–	–	100
	300	4,581	2,172	255	1,553	8,861
Year ended 31 December 2010						
Executive Directors						
Zhang Jun (張軍)	–	–	–	–	–	–
Zhang Shunman (張姝嫚)	–	144	20	8	–	172
Ji Min (紀敏)	–	162	–	22	–	184
Non-executive Director						
Yuan Pengbin (袁鵬斌)	–	371	–	31	–	402
Wang Tao (汪濤)	–	183	167	4	–	354
Datuk Syed Hisham	–	–	–	–	–	–
Independent Non-executive Directors						
Liu Qihua (劉奇華)	–	–	–	–	–	–
Wang Tao (王濤)	–	–	–	–	–	–
Lee Siang Chin	–	–	–	–	–	–
	–	860	187	65	–	1,112

Mr Li Huaiqi was appointed as a non-executive director of the Company since August 2011.

23 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2011 include three (2010: nil) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: five) individuals during the year are as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Basic salaries and allowances	**2,042**	2,475
Discretionary bonus	**2,233**	2,520
Social security costs	**69**	159
Share options *(Note 17(3))*	**1,060**	–
	5,404	5,154

The emoluments fell within the following bands:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Emolument bands:		
Nil to HK$2,500,000 (equivalent to RMB2,078,000)	**1**	5
HK$2,500,001 to HK$4,500,000 (equivalent to RMB2,078,000 to RMB3,739,000)	**1**	–
	2	5

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

24 OTHER INCOME

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Gain on remeasuring existing interest in Almansoori Hilong Petroleum Pipe Company *(Note 32(a))*	**29,763**	–
Gain on remeasuring existing interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. *(Note 32(b))*	**3,570**	–
Gain on remeasuring existing interest in CNOOC Tube-Cote Tianjin Pipe Co., Ltd. *(Note 32(c))*	**734**	–
	34,067	–

25 OTHER (LOSSES)/GAINS – NET

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Government grants	**12,800**	7,995
Changes in the fair value for Series A convertible preferred shares *(Notes 18(b))*	**133**	2,957
Negtive goodwill *(a)*	**–**	5,420
Donation expenses	**(15)**	(148)
(Loss)/gain on disposal of property, plant and equipment – net	**(562)**	107
Loss on disposal of equity interests in an associate *(b)*	**(1,839)**	–
Exchange losses	**(19,435)**	(1,514)
Others	**(325)**	268
	(9,243)	15,085

(a) The Group acquired a 45% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. in September 2010 from Hailong International at a consideration of RMB8,375,000. Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration	8,375
The fair value of net assets acquired	(13,795)
Negative goodwill	(5,420)

The purchase consideration was paid in 2011.

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

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

As at 31 December 2011, the consideration has not been received yet.

26 FINANCE COSTS – NET

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**1,182**	700
Finance cost:		
– Interest expense on bank borrowings	**(37,688)**	(24,802)
– Amortization of the liability component of Series A convertible preferred shares using effective interest method *(Note 18(b))*	**(6,545)**	(4,601)
– Amortization of the liability component of Convertible bonds *(Note 18(d))*	**(2,277)**	–
– Amortization of an interest-free related party borrowing using effective interest method *(Note 18(c))*	**(238)**	(1,073)
	(46,748)	(30,476)
Finance costs – net	**(45,566)**	(29,776)

27 INCOME TAX EXPENSE

Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Current income tax	**58,425**	42,491
Deferred income tax *(Note 11)*	**(13,391)**	2,784
Income tax expense	**45,034**	45,275

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before tax	**364,597**	275,181
Tax calculated at statutory tax rates applicable to each group entity	**43,824**	40,995
Tax effect of:		
Expenses not deductible for tax purpose	**4,983**	2,583
Tax effect of tax exemption and reduced tax rate under tax holiday *(a)*	**(6,004)**	(32)
Additional deduction for research and development expense *(b)*	**(1,311)**	–
Income not subject to income tax	**18**	(529)
Tax losses of subsidiaries not recognized *(Note 11)*	**3,524**	2,258
Tax charge	**45,034**	45,275

27 INCOME TAX EXPENSE (continued)

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the year ended 31 December 2011 and 2010.

Enterprises incorporated in other places are subject to income tax rates of 16.5% to 30% prevailing in the places in which the Group operated for the year ended 31 December 2011 and 2010.

The income tax provision of the Group in respect of its operations in the Mainland China has been calculated at the applicable corporate tax rate on the estimated assessable profits based on existing legislations, interpretations and practices. On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "CIT Law"), which was effective from 1 January 2008. Under the CIT Law, the corporate income tax rate applicable to the Group's subsidiaries located in the Mainland China from 1 January 2008 is 25%, replacing the applicable tax rate of 33%.

Since the deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the year when the assets is realized or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and liabilities of the Group's subsidiaries located in the PRC.

Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of their earnings generated from 1 January 2008. The deferred income tax liabilities of RMB9,890,000 (note 11) has been recognized in 2011 since the management plans to distribute the pertinent earnings generated in those subsidiaries established in Mainland China to its overseas immediate holding company. Deferred income tax liabilities of RMB16,260,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries in the year ended 31 December 2011. Such amounts are permanently reinvested. The permanently reinvested unremitted earnings totaled RMB162,600,000 as at 31 December 2011 (31 December 2010: nil).

27 INCOME TAX EXPENSE (continued)

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

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

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Hilong Group of Companies Ltd.	**12.5%**	12.5%
Shanghai Hilong Drill Pipe Co., Ltd.	**12.5%**	12.5%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	12.5%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.*	**15%**	15%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	15%

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

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

* Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax rate of 15% for the three years from 2009 to 2011.

* Shanghai Hilong Shine New Material Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax of 15% for the three years from 2010 to 2012.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the year ended 31 December 2011 and 2010.

(b) Additional deduction for research and development expense

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

28 EARNINGS PER SHARE

(a) Basic

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

In determining the weighted average number of ordinary shares in issue during 2010, the 1 share issued and allotted in connection with the incorporation of the Company on 15 August 2008, the 953,299 shares issued and allotted on 30 November 2010 and the 1,143,006,700 shares issued and allotted in connection through capitalization of the share premium account arose from the Listing of the Company on 21 April 2011 have been regarded as if these shares were in issue since 1 January 2010.

	Year ended 31 December	
	2011	2010
Profit attributable to equity owners of the Company	**301,691**	178,369
Weighted average number of ordinary shares in issue (thousands)	**1,462,341**	1,143,960
Basic earnings per share (RMB)	**0.21**	0.16

(b) Diluted

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares of Series A convertible preferred shares, share options and the convertible bonds. The Series A convertible preferred shares and the convertible bonds were assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense and any other changes in income or expenses that resulted from the conversion of the dilutive potential ordinary shares, less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

28 EARNINGS PER SHARE (continued)
(b) Diluted (continued)

	Year ended 31 December	
	2011	2010
Earnings		
Profit attributable to equity owners of the Company	**301,691**	178,369
Interest expense and other changes in income or expenses on Series A convertible preferred shares (net of tax)	**–**	4,601
Profit used to determine diluted earnings per share	**301,691**	182,970
Weighted average number of ordinary shares in issue (thousands)	**1,462,341**	1,143,960
Adjustments for assumed conversion of Series A convertible preferred shares (thousand):	**–**	19,499
Weighted average number of ordinary shares for diluted earnings per share (thousand)	**1,462,341**	1,163,459
Diluted earnings per share (RMB)	**0.21**	0.16

As at 31 December 2011, there were 45,519,000 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 year ended 31 December 2011. As a result, for the year ended 31 December 2011, the Company had no dilutive potential share.

29 DIVIDENDS
Group

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Proposed final dividend of HK$0.0690 per ordinary share *(a)*	**89,017**	–
Dividend in respect of 2010 of HK$0.0390 per ordinary share *(b)*	**51,892**	–
Dividends declared and paid to the then equity owners	**–**	10,000
	140,909	10,000

(a) Pursuant to a resolution of the Board of Directors on 23 March 2012, a cash dividend of HK$0.0690 (equivalent to RMB0.0559) per share for the year ended 31 December 2011, amounting to a total dividend of HK$109,802,000 (equivalent to RMB89,017,000), has been recommended by the directors. This cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

(b) 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 RMB51,892,000) 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 year ended 31 December 2011.

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

30 CASH GENERATED FROM OPERATIONS

Group

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year before income tax	**364,597**	275,181
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**80,094**	55,700
– Amortization of lease prepeyments *(Note 7)*	**999**	1,033
– Amortization of intangible assets *(Note 8)*	**456**	266
– Reversal for impairment of inventories *(Note 13)*	**(10,220)**	–
– Reversal for impairment of receivables *(Note 14)*	**–**	(489)
– Share of results of associates *(Note 9)*	**4,096**	(1,258)
– Share of results of jointly controlled entities *(Note 10)*	**6,754**	16,756
– Finance costs *(Note 26)*	**46,748**	30,476
– Loss/(gain) on disposal of property, plant and equipment *(Note 25)*	**562**	(107)
– Gain on the changes of the fair values for the Series A convertible preferred shares *(Note 25)*	**(133)**	(2,957)
– Other income *(Note 24)*	**(34,067)**	–
– Disposal of equity interests in an associate *(Note 25)*	**1,839**	–
– Negative goodwill *(Note 25)*	**–**	(5,420)
	461,725	369,181
Changes in working capital:		
– Increase in trade and other receivables	**(96,169)**	(260,582)
– Increase in inventories	**(51,096)**	(32,340)
– Increase in restricted cash	**(1,231)**	(23,573)
– Increase/(decrease) in deferred revenue	**6,595**	(8,481)
– (Decrease)/increase in trade and other payables	**(162,447)**	179,617
– Cash generated from operations	**157,377**	223,822

30 CASH GENERATED FROM OPERATIONS (continued)

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

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net book amount *(Note 6)*	**17,166**	402
(Loss)/gain on disposal of property, plant and equipment *(Note 25)*	**(562)**	107
Proceeds from disposal of property, plant and equipment	**16,604**	509
Collected	**15,604**	509
Not yet collected	**1,000**	–
	16,604	509

(c) Non-cash transactions

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

31 COMMITMENTS

Group

(a) Capital commitments

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**45,748**	65,918

(b) Operating lease commitments

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
No later than 1 year	**9,121**	4,176
Later than 1 year and no later than 3 year	**5,428**	5,249
Later than 3 years	**9,059**	10,020
	23,608	19,445

32 BUSINESS COMBINATION

Group

(a) Acquisition of Almansoori Hilong Petroleum Pipe Company

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

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

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

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

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

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

32 BUSINESS COMBINATION (continued)

(a) Acquisition of Almansoori Hilong Petroleum Pipe Company (continued)

There is no revenue or profit included in the consolidated income statement as the acquisition date is close to the year end.

Had Almansoori Hilong Petroleum Pipe Company been consolidated from 1 January 2011, the consolidated income statement would reflect additional revenue of RMB86,615,000 and net loss attributable to the equity owners of the Company of RMB13,707,000.

Subsequent to the completion of the acquisition, Almansoori Hilong Petroleum Pipe Company's legal name was changed to Hilong Petroleum Pipe Company in March 2012.

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

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

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

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

32 BUSINESS COMBINATION (continued)

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

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

The revenue included in the consolidated income statement since August 2011 contributed by Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. was RMB11,348,000. Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. also contributed profit of RMB6,000 over the same period.

Had Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. been consolidated from 1 January 2011, the consolidated income statement would reflect additional revenue of RMB33,607,000 and net profit attributable to the equity owners of the Company of RMB397,000.

(c) Acquisition of CNOOC Tube-Cote Tianjin Pipe Co., Ltd.

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

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

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

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

32 BUSINESS COMBINATION (continued)

(c) Acquisition of CNOOC Tube-Cote Tianjin Pipe Co., Ltd. (continued)

The revenue included in the consolidated income statement since August 2011 contributed by CNOOC Tube-Cote Tianjin Pipe Co., Ltd. was RMB3,052,000. CNOOC Tube-Cote Tianjin Pipe Co., Ltd. also contributed loss of RMB3,368,000 over the same period.

Had CNOOC Tube-Cote Tianjin Pipe Co., Ltd. been consolidated from 1 January 2011, the consolidated income statement would reflect additional revenue of RMB5,919,000 and net loss attributable to the equity owners of the Company of RMB1,014,000.

Subsequent to the completion of the acquisition, CNOOC Tube-Cote Tianjin Pipe Co., Ltd.'s legal name was changed to Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. in October 2011.

33 DISPOSALS OF A SUBSIDIARY

Group

In December 2010, the Group disposed of its entire 75% equity interest in Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. to Huashi Hailong, which is under the common control of the Controlling Shareholder. The diposal was accounted for as distribution of dividend to the Controlling Shareholder and recorded in the merger reserve.

	RMB'000
Total consideration	13,155
Net assets disposed	(13,551)
Loss on disposal	(396)
Amounts previously recognized in other comprehensive income	48
Loss on disposal recognized in merger reserve *(Note 17(2))*	(348)

The aggregated assets and liabilities in respect of the above disposals were as follows:

Cash and cash equivalents	100
Trade and other receivables	12,210
Lease prepayments	1,635
Property, plant and equipment	4,887
Trade and other payables	(664)
Current income tax liabilities	(100)
Net assets	18,068
Equity interests rate	75%
Net assets disposed	13,551
Net loss on disposal	(396)
Total consideration	13,155
Less: other receivables due from related parties	(13,155)
Cash received	–
Less: Cash and cash equivalents in the subsidiary disposed	(100)
Cash outflow from disposal of the subsidiary	(100)

34 RELATED PARTY TRANSACTIONS

Group and Company

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

The ultimate parent company of the Group is Hilong Group Limited (Note 1), which owns 71.7% (31 December 2010: 95.33%) equity interest in the Company as at 31 December 2011. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2011 and 2010, and balances arising from related party transactions as at 31 December 2011 and 2010.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hailong International
Hilong Oil Pipe Co., Ltd.
Hilong USA LLC.
Hilong Group Ltd.
Huashi Hailong
Beijing Huashi Hilong Oil Investment Co., Ltd.
Huashi Audio Visual Investment (Beijing) Co., Ltd.
Jiangyan Hilong Wire Welding Co., Ltd.
Hebei Zhongxin Precision Machinery Co., Ltd.
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
CNOOC Tube-Cote Tianjin Pipe 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. Details see Note 32.

34 RELATED PARTY TRANSACTIONS (continued)

(a) Name and relationship with related parties (continued)

(vi) Controlled by key management personnel

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

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the years ended 31 December 2011 and 2010, the Group had the following significant transactions with related parties:

	The Group Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Sales of goods:		
Almansoori Hilong Petroleum Pipe Company	**95,467**	29,626
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**33,882**	24,112
Hilong Temerso Co., Ltd	**14,370**	–
Nantong Hilong Steel Pipe Co., Ltd.	**14,330**	3,104
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**7,723**	5,184
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**3,732**	10,389
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**440**	–
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	2,863
Huashi Hailong	**–**	5,701
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	5,924
Hilong Oil Pipe Co., Ltd.	**–**	4,608
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**–**	2,833
	169,944	94,344
Purchase of materials:		
Nantong Hilong Steel Pipe Co., Ltd.	**35,118**	37,875
Jiangyan Hilong Wire Welding Co., Ltd.	**1,096**	1,417
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	8,671
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**–**	4,889
Hebei Zhongxin Precision Machinery Co., Ltd.	**–**	756
	36,214	53,608
Consulting fee:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**2,600**	6,417
Shanghai Xinhao Technology Development Co., Ltd.	**1,900**	937
	4,500	7,354
Sales Commission:		
Huashi Hailong	**–**	127

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

34 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	The Group As at 31 December	
	2011 RMB'000	2010 RMB'000
Trade receivables due from:		
Nantong Hilong Steel Pipe Co., Ltd.	**25,521**	11,000
Hilong Temerso Co., Ltd.	**14,944**	–
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**10,482**	3,383
Jiangyan Hilong Wire Welding Co., Ltd.	**5,275**	3,188
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,519**	1,544
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**425**	–
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**184**	184
Almansoori Hilong Petroleum Pipe Company	**–**	28,239
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**–**	2,756
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**–**	2,640
Hilong USA LLC.	**–**	2,091
	59,350	55,025
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**20,398**	11,703
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**19,132**	13,230
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**10,550**	10,400
Huashi Hailong	**2,293**	160,075
Hilong Temerso Co., Ltd.	**1,867**	–
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**1,500**	–
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	58,524
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**–**	18,052
Nantong Hilong Steel Pipe Co., Ltd.	**–**	12,632
Huashi Audio Visual Investment (Beijing) Co., Ltd.	**–**	6,651
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**–**	2,685
Hilong Oil Pipe Co., Ltd.	**–**	2,035
Almansoori Hilong Petroleum Pipe Company	**–**	1,085
	55,740	297,072
Prepayments to:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**3,700**	–
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	23,350
	3,700	23,350

34 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	The Company As at 31 December	
	2011	2010
	RMB'000	RMB'000
Other receivables due from:		
Hilong Energy Limited	**803,390**	264,949
Hilong Investment Ltd.	**164,543**	–
	967,933	264,949

	The Company As at 31 December	
	2011	2010
	RMB'000	RMB'000
Dividends receivable due from:		
Hilong Energy Holding Limited	**217,397**	–

	The Group As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables due to:		
Jiangyan Hilong Wire Welding Co., Ltd.	**5,368**	2,714
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.	**4,767**	4,767
Huashi Hailong	**–**	29,648
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**–**	3,382
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	745
	10,135	41,256
Other payables due to:		
Nantong Hilong Steel Pipe Co., Ltd.	**33,900**	–
Hailong International	**–**	317,072
Huashi Hailong	**–**	2,193
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	36
	33,900	319,301
Dividends payable due to:		
Hailong International	**9,470**	9,470
Huashi Hailong	**–**	35,148
	9,470	44,618
Loan borrowing from:		
Hailong International *(Note 18(c))*	**7,876**	10,565

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

34 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Basic salaries and allowances	**9,061**	4,221
Discretionary bonus	**6,260**	1,724
Social Security costs	**437**	301
Share options *(Note 17(3))*	**2,630**	–
	18,388	6,246

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

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

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

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

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

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

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

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

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

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

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

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

	RMB'000
Total comprehensive income for the year attributable to the equity owners of the Company	278,869
Changes in equity attributable to the shareholders of the Company arising from:	
– Acquisition of additional interests in Shanghai Hilong Shine New Material Co., Ltd.	(8,177)
– Acquisition of additional interests in Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	(7,100)
– Acquisition of additional interest in Shanghai Boteng Welding Consumable Co., Ltd.	(23,473)
	(38,750)
Net effect for transactions with non-controlling interests on changes in equity attributable to equity owners of the Company	240,119

36 SUBSIDIARIES

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2011	2010	Direct/ Indirect	Principle activities
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Hilong Group of Companies Ltd.	PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, 30 August 2005	USD 3,600,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, 17 November 2006	RMB50,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, 22 November 2006	RMB30,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, 1 January 2008	RMB40,000,000	**51%**	51%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 8 March 2002	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, 12 November 2003	RMB15,000,000	**100%**	72%	Indirect	Manufacturing and distribution of coating materials
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 9 November 2005	RMB10,000,000	**100%**	60%	Indirect	Coating service provision
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, 7 January 2008	RMB20,000,000	**45.4%**	45.4%	Indirect	Coating service provision
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	PRC, 13 January 2009	RMB10,000,000	**55%**	–*	Indirect	Coating service provision
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, 9 June 2009	RMB6,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2011	2010	Direct/ Indirect	Principle activities
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, 5 January 2009	RMB120,000,000	**99%**	99%	Indirect	Manufacturing and distribution of oil and gas equipment
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 18 September 2009	RMB20,000,000	**51%**	–*	Indirect	Coating service provision
Shanghai Hilong Tubular Goods Research Institute	PRC, 27 October 2006	RMB5,000,000	**100%**	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, 29 December 2005	RMB3,000,000	**100%**	54%	Indirect	Manufacturing and distribution of hardbanding materials
Hilong Oil Service and Engineering Co., Ltd.	PRC, 16 July 2008	RMB80,000,000	**95%**	95%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	RPC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 29 September 2010	RMB15,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Energy Limited	Hong Kong, 8 July 2008	HK$1	**100%**	100%	Indirect	Investment holding
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD 10,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, 18 March 2009	USD 400	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006	KZT110,000	**100%**	100%	Indirect	Oilfield service provision
PT Hilong Oil Service & Engineering Indonesia	The Republic of Indonesia, 6 May 2010	USD 150,000	**95%**	95%	Indirect	Oilfield service provision

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2011	2010	Direct/ Indirect	Principle activities
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	IDR30,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Investment Ltd.	Malaysia, 13 September 2006	USD 100	**100%**	100%	Indirect	Investment holding
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007	CAD 100	**100%**	100%	Indirect	Oil and gas equipment trading
Hilong Drilling & Supply FZE	Dubai, 15 December 2009	AED 1,000,000	**100%**	100%	Indirect	Oilfield service provision
Almansoori Hilong Petroleum Pipe Company	Abu Dahabi 6 November 2006	AED 1,000,000	**100%**	–*	Indirect	Manufacturing and distribution of oil and gas equipment

* These three companies are associated companies or jointly controlled entities of the Group before 2011, details refer to Note 9 and 10.

37 EVENTS AFTER THE BALANCE SHEET DATE

(a) On 30 December 2011, the directors authorised the Company to repurchase 3,876,000 ordinary shares in the market through the Stock Exchange of Hong Kong Limited. The shares were repurchased and cancelled on delivery of the shares certificates in January 2012 with an aggregated consideration of HK$5,217,000 (equivlant to RMB4,230,000).

(b) Pursuant to a resolution of the Board of Directors on 23 March 2012, a cash dividend of RMB89,017,000 was proposed. Details refer to Note 29.

38 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 23 March 2012.

FINANCIAL SUMMARY

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

Consolidated Results

	For the year ended 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Revenue	**1,821,194**	1,356,462	1,006,656	1,701,380	898,891
Gross profit	**746,610**	556,606	385,573	765,765	386,173
Gross profit margin	**41.0%**	41.0%	38.3%	45.0%	43.0%
Operating profit	**421,013**	320,455	167,546	575,568	288,102
Operating profit margin	**23.1%**	23.6%	16.6%	33.8%	32.0%
Profit for the year	**319,563**	229,906	110,016	495,432	285,715
Profit attributable to:					
Equity owners of the Company	**301,691**	178,369	60,627	437,290	259,960
Non-controlling interests	**17,872**	51,537	49,389	58,142	25,755

Consolidated assets, equity and liabilities

	As at 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
ASSETS					
Non-current assets	**1,371,919**	923,720	769,916	628,986	381,758
Current assets	**2,201,623**	1,844,776	1,417,948	1,394,276	835,027
Total assets	**3,573,542**	2,768,496	2,187,864	2,023,262	1,216,785
EQUITY AND LIABILITIES					
Total equity	**2,038,617**	905,609	1,013,187	928,825	537,416
Non-current liabilities	**298,752**	91,911	73,069	66,069	15,300
Current liabilities	**1,236,173**	1,770,976	1,101,608	1,028,368	664,069
Total liabilities	**1,534,925**	1,862,887	1,174,677	1,094,437	679,369
Total equity and liabilities	**3,573,542**	2,768,496	2,187,864	2,023,262	1,216,785

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