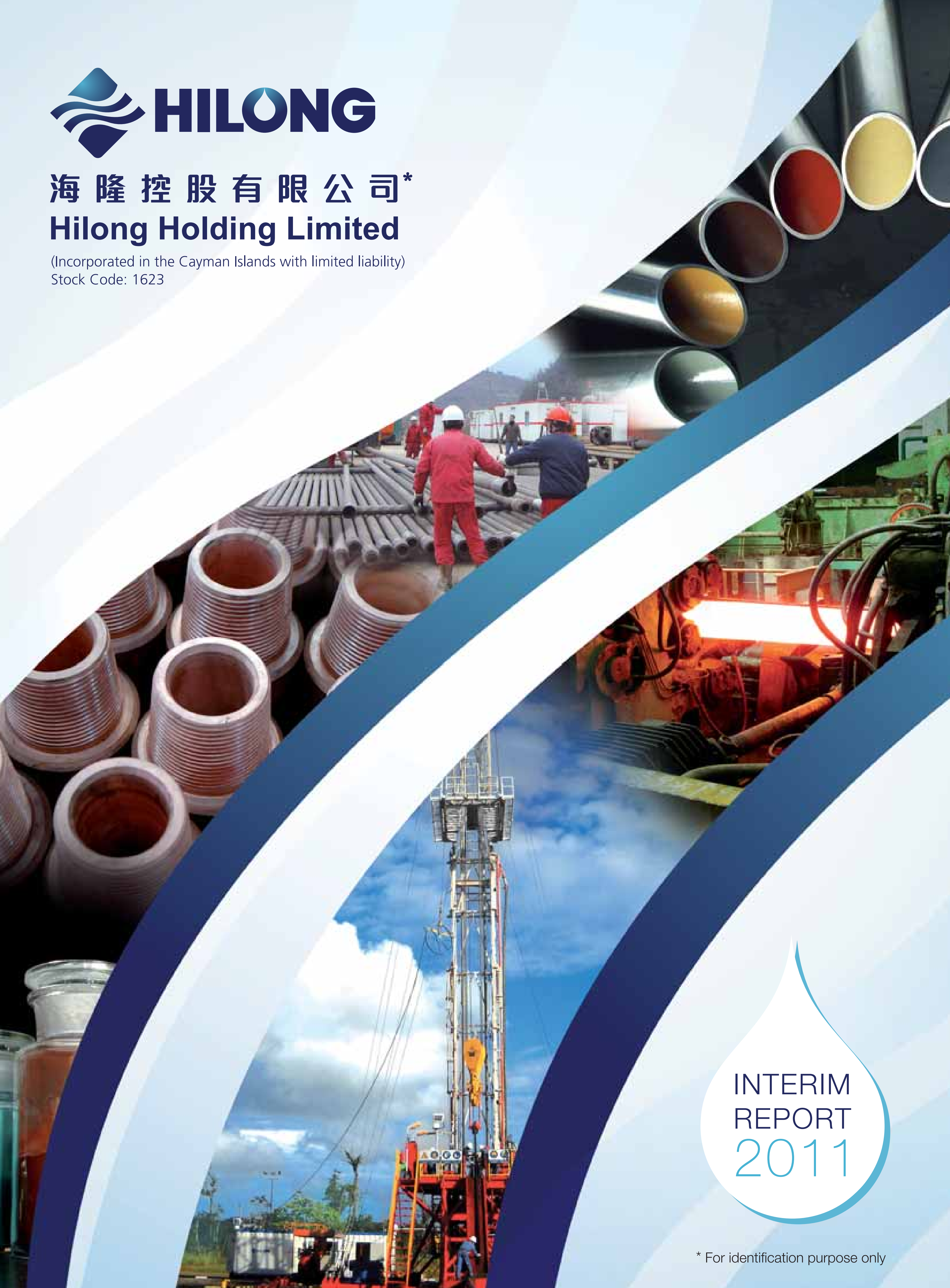
HILONG

海隆控股有限公司*

Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1623



INTERIM REPORT 2011

* For identification purpose only

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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)*
Mr. Wang Tao (汪濤)
Mr. Wang Tao (王濤)

REMUNERATION COMMITTEE

Mr. Yuan Pengbin (袁鵬斌) *(chairman)*
Mr. Wang Tao (王濤)
Mr. Lee Siang Chin

NOMINATION COMMITTEE

Ms. Zhang Shuman (張姝嫚) *(chairlady)*
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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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

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

STOCK CODE

The Stock Exchange of Hong Kong Limited:
1623

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FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2011		2010	
	RMB'000	%	RMB'000	%
Drill pipes and related products				
– Drill pipes	**269,953**	**35.7**	263,119	46.0
– Drill pipe components	**54,693**	**7.2**	6,427	1.1
– Hardbanding	**7,464**	**1.0**	9,320	1.6
– Equipment	**485**	**0.1**	485	0.1
– Others	**22,534**	**3.0**	10,805	1.9
Subtotal	**355,129**	**47.0**	290,156	50.7
Coating materials and services				
Oil Country Tubular Goods ("OCTG")				
– Coating materials	**16,224**	**2.1**	11,763	2.1
– Coating services	**47,615**	**6.3**	39,852	7.0
Oil and gas line pipe				
– Coating materials	**74,956**	**9.9**	55,823	9.8
– Coating service	**86,865**	**11.5**	84,524	14.8
Subtotal	**225,660**	**29.8**	191,962	33.7
Oilfield services	**174,352**	**23.2**	89,856	15.6
Total revenue	**755,141**	**100.0**	571,974	100.0

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

	Six months ended 30 June			
	2011		2010	
	RMB'000	%	RMB'000	%
The People's Republic of China ("PRC")	**390,009**	**51.6**	389,284	68.1
North and South America	**148,806**	**19.7**	60,951	10.7
Middle East	**138,835**	**18.4**	18,428	3.2
Russia, Central Asia and East Europe	**58,990**	**7.8**	103,311	18.0
West Africa	**18,501**	**2.5**	–	–
	755,141	**100.0**	571,974	100.0

Revenue increased by RMB183.1 million, or 32.0%, from RMB572.0 million for the six months ended 30 June 2010 to RMB755.1 million for the six months ended 30 June 2011 (the "Interim Period"). Such increase primarily reflected an increase in revenue from oilfield services segment and, to a lesser extent, from drill pipes and related products segment and the coating materials and services segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment increased by RMB64.9 million, or 22.4%, from RMB290.2 million during the six months ended 30 June 2010 to RMB355.1 million for the Interim Period. Such increase primarily reflected an increase in revenue derived from sales of drill pipes in the international market and sales of drill pipe components, partially offset by a decrease in revenue derived from sales of drill pipes in the PRC market.

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

	Six months ended 30 June	
	2011	2010
Sales of drill pipes		
– International market		
– volume (tons)	**5,564**	3,293
– unit price (RMB/ton)	**25,892**	25,984
Subtotal (RMB'000)	**144,063**	85,565
– Domestic market		
– volume (tons)	**4,629**	6,813
– unit price (RMB/ton)	**27,196**	26,061
Subtotal (RMB'000)	**125,890**	177,554
Total (RMB'000)	**269,953**	263,119

Revenue from sales of drill pipes in the international market increased by RMB58.5 million, from RMB85.6 million for the six months ended 30 June 2010 to RMB144.1 million for the Interim Period. The increase primarily reflected a 69.0% increase in the volume of drill pipes sold from 3,293 tonnes for the six months ended 30 June 2010 to 5,564 tonnes for the Interim Period, while average selling price of drill pipes sold in the international market remained stable in the two periods. 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 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 and gas prices during the Interim Period as compared to the same period in 2010.

Revenue from sales of drill pipes in the PRC market decreased by RMB51.7 million, or 29.1%, from RMB177.6 million for the six months ended 30 June in 2010 to RMB125.9 million for the Interim Period. The decrease primarily reflected a 32.1% decrease in the volume of drill pipes sold in the PRC market from 6,813 tonnes for the six months ended 30 June in 2010 to 4,629 tonnes for the Interim Period, partially offset by a 4.4% increase in the average selling price in the PRC market from RMB26,061 per tonne for the six months ended 30 June 2010 to RMB27,196 per tonne for the Interim Period. The decrease in the sales volume primarily reflected a reduced level of demand on drill pipes and capital spending by PRC oil and gas companies due to the reduced expansion of their overseas drilling activities. The increase in the average selling price primarily reflected the Company's increasing focus on the development and marketing of non-American Petroleum Institute ("API") drill pipe products, which are generally sold at a higher price compared to API products.

Revenue from sales of drill pipe components increased by RMB48.3 million, from RMB6.4 million during the six months ended 30 June in 2010 to RMB54.7 million for the Interim Period. 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 RMB33.7 million, or 17.6%, from RMB192.0 million for the six months ended 30 June 2010 to RMB225.7 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating materials and, to a lesser extent, from OCTG coating services and materials.

The increase in revenue from oil and gas line pipe coating materials reflected a 43.4% increase in volume from 5,009 tonnes for the six months ended 30 June 2010 to 7,183 tonnes for the Interim Period, partially offset by a 6.4% decrease in average selling price from RMB11,145 per tonne for the six months ended 30 June 2010 to RMB10,436 per tonne for the Interim Period. The increase in the sales volume 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 demand for the Group's coating materials. A higher portion of revenue was derived from standard anticorrosion coating materials, which are generally sold at a lower price compared to special anticorrosion coating materials, in the Interim Period. As a result, the average selling price decreased compared to the same period of last year.

The increase in revenue from OCTG coating services and materials primarily reflected (i) an increase in the manufacturing capacity and utilization rate in providing OCTG coating services and production of materials coupled with a higher demand for the services in the Interim Period; and (ii) an increase in the average selling price of the OCTG coating services as well as the coating materials in the Interim Period in comparison with the six months ended 30 June 2010.

Oilfield services. Revenue from the oilfield services segment increased significantly by RMB84.5 million from RMB89.9 million for the six months ended 30 June 2010 to RMB174.4 million for the Interim Period. 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 an oilfield services client in Ecuador.

Cost of Sales/Services

Cost of sales increased by RMB75.4 million, or 21.7%, from RM347.9 million for the six months ended 30 June 2010 to RMB423.3 million for the Interim Period. 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 volume of the purchase of oil and gas tubing and casing products from third party manufacturers for sale to an oilfield services client in Ecuador in the Interim Period.

Gross Profit and Gross Margin

As a result of the foregoing, the gross profit increased by RMB107.8 million, or 48.1%, from RMB224.0 million for the six months ended 2010 to RMB331.8 million for the Interim Period. The gross margin increased from 39.2% for the six months ended 30 June 2010 to 43.9% for the Interim Period. The increase in gross margin primarily reflected the increase in gross margin from drill pipes and related products segment and oilfield services segment, offset by a decrease in gross margin from coating materials and services segment.

Gross margin of the drill pipes and related products segment increased from 32.5% for the six months ended 2010 to 42.5% for the Interim Period, reflecting (i) an increase in 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 Company compared to other third party suppliers during the Interim Period; (ii) the fact that during the Interim Period, 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) the increased portion of revenue derived from non-API drill pipe products, which generally yielded higher margin compared to API drill pipe products.

Gross margin of the coating materials and services segment decreased from 49.8% for the six months ended 30 June 2010 to 45.2% for the Interim Period. The decrease was primarily attributable to (i) a higher portion of revenue derived from line pipe coating materials in the Interim Period, which generally yielded lower gross margin; and (2) an increase of price of the petro-chemical materials, which is the major component of the line pipe coating materials.

Gross margin for the oilfield services segment increased from 38.0% for the six months ended 30 June 2010 to 45.3% for the Interim Period. The increase primarily reflected the higher gross margin yielded by new drilling and engineering services projects provided in the Interim Period.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB5.7 million, or 15.2%, from RMB37.4 million for the six months ended 30 June 2010 to RMB43.1 million for the Interim Period. Such increase primarily reflected an increase in transportation expenses incurred for the sale of drill pipes 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 an oilfield services client in Ecuador during the Interim Period.

Administrative Expenses

Administrative expenses increased by RMB37.8 million, or 57.6%, from RMB65.6 million for the six months ended 30 June 2010 to RMB103.4 million for the Interim Period. Such increase primarily reflected (i) expenses of RMB23.1 million incurred in connection with the global offering (the “Global Offering”) and listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”); (ii) an increase in research and development expenses incurred in the drill pipes and related products 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 on 1 January 2011 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 depreciation charges, staff costs and transportation expenses incurred in connection with the expansion of our oilfield services segment.

Other (Losses)/Gains – Net

The Group recognized a net loss of RMB2.3 million for the Interim Period and a net gain of RMB0.3 million for the six months ended 30 June 2010. The recognized net loss primarily reflected the foreign exchange losses of RMB6.4 million, partially offset by the government grants of RMB3.6 million in relation to the new and high-technology projects. The net gain recognized in the six months ended 30 June 2010 primarily reflected the government grants of RMB0.46 million in relation to the new and high-technology projects, partially offset by a net loss of RMB0.3 million in foreign exchange.

Finance Costs

Finance costs increased by RMB16.6 million, or 137.2%, from RMB12.1 for the six months ended 30 June 2010 to RMB28.7 for the Interim Period. 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 listing of the Company’s shares on the Stock Exchange; and (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 listing of the Company’s shares on the Stock Exchange.

Share of Results of Jointly Controlled Entities

The Group’s share of losses of jointly controlled entities decreased by RMB3.3 million, or 38.4%, from RMB8.6 million for the six months ended 30 June 2010 to RMB5.3 million for the Interim Period. The decrease reflected a decrease in losses incurred by Almansoori Hilong Petroleum Pipe Company as it was in the process of ramping up its operations during the Interim Period.

Profit before Income Tax

As a result of the foregoing, the profit before income tax increased from RMB102.2 million for the six months ended 30 June 2010 to RMB151.3 million for the Interim Period.

Income Tax Expense

Income tax expense increased by RMB1.4 million, or 6.1%, from RMB22.8 million for the six months ended 30 June 2010 to RMB24.2 million for the Interim Period. The effective tax rate was approximately 22.3% for the six months ended 30 June 2010 and 16.0% for the Interim Period. The decrease 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 the Interim Period.

Profit for the Period

As a result of the foregoing, profit for the period increased from RMB79.4 million for the six months ended 30 June 2010 to RMB127.1 million for the Interim Period.

Inventories

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

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Inventory	**377,198**	365,522
Turnover days of inventory (in days)[1]	**159**	160

[1] Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 181 for the Interim Period and by 365 for the year ended 31 December 2010. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

During the Interim Period, the inventory turnover days remained stable compared with the turnover days in the year ended 31 December 2010.

Trade and Other Receivables

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

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade receivables		
– Due from third parties	**727,275**	710,648
– Due from related parties	**57,447**	55,025
– Less: Provision for impairment of receivables	**(11,033)**	(11,033)
– Trade receivables-net	**773,689**	754,640
Other receivables		
– Due from third parties	**43,685**	39,199
– Due from related parties	**151,302**	297,072
– Other receivables	**194,987**	336,271
Bills receivable	**16,080**	5,727
Dividends receivable	**1,526**	–
Prepayments	**109,321**	83,110
Total	**1,095,603**	1,179,748

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 as at the dates indicated.

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade receivables, gross		
– Within 90 days	**514,417**	444,062
– Over 90 days and within 180 days	**92,138**	202,662
– Over 180 days and within 360 days	**105,570**	50,981
– Over 360 days and within 720 days	**49,347**	37,369
– Over 720 days	**23,250**	30,599
	784,722	765,673
Turnover days of trade receivables[(1)]	**186**	187

(1) Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2010. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

Turnover days of trade receivables remained stable during the Interim Period compared to the year ended 31 December 2010.

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 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Due from related parties	**151,302**	297,072
Staff advance	**13,138**	8,349
Value added tax refund	**18,217**	21,693
Others	**12,330**	9,157
	194,987	336,271

Other receivables due from related parties primarily include amounts due from the associates of the Group and the jointly controlled entities of the Group. Receivables due from the subsidiaries of the controlling shareholders as at 31 December 2010 have been settled by the end of June 2011.

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 30 June 2011 reflected the increasing sales and marketing efforts during the Interim Period. Value added tax refund recognized as at 30 June 2011 and 31 December 2010 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 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Bills payable	34,574	98,176
Trade payables:		
– Due to third parties	199,177	239,797
– Due to related parties	7,962	41,256
Other payables:		
– Due to third parties	29,875	67,759
– Due to related parties	25,664	319,301
Staff salaries and welfare payables	9,233	10,098
Advance from customers	39,378	96,084
Interest payables	222	475
Accrued taxes other than income tax	16,446	23,820
Dividends payable	18,870	51,852
Other liabilities	6,104	4,804
	387,505	953,422

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

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade payables, gross		
– Within 90 days	149,305	195,316
– Over 90 days and within 180 days	16,738	26,855
– Over 180 days and within 360 days	8,941	1,694
– Over 360 days and within 720 days	9,695	5,411
– Over 720 days	22,460	51,777
	207,139	281,053
Turnover days of trade payables(1)	104	110

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2010. Average trade payables equal balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The decrease in the balance of trade payables due to third parties from 31 December 2010 to 30 June 2011 reflected payment for the drilling rigs.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

In April 2011, the Company offered 400 million shares under the Global Offering (for details, please refer to the Company's Prospectus. The Company was successfully listed on the Main Board of the Stock Exchange on 21 April 2011 (the "Listing Date"). Net proceeds from the Global Offering were approximately HK$954 million. As at 30 June 2011, the Group had utilized approximately HK$794 million of the proceeds. The balance of the raised fund was placed with licenced financial institutions.

The utilization of proceeds from the Global Offering is consistent with the intended use of proceeds as disclosed in the Prospectus and the allotment results announcement dated 20 April 2011. The utilization of proceeds from the Global Offering by 30 June 2011 is summarized in the following table:

	Planned at the Global Offering	**Used in the Interim Period**	**Residual balance as at 30 June 2011**
	HKD in million	HKD in million	**HKD in million**
Gross proceeds from the Global Offering	1,040		
Net proceeds after expenses	954		
Expansion of coating materials and services business	229	134	**95**
Expansion of oilfield services business	224	165	**59**
Repayment of outstanding balances due to related parties	189	189	**0**
Repayment of bank borrowings	165	165	**0**
Upgrading of production capacity for drill pipes	95	89	**6**
Working capital and general corporate purposes	52	52	**0**
Total	954	794	**160**

DIVIDEND

During the Interim Period, 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 of Directors (the "Board") resolved not to declare any interim dividend for the Interim Period.

BUSINESS REVIEW

The Group is a leading PRC-based non-state owned integrated oilfield equipment and service provider, which has three interrelated business segments, namely drill pipes and related products, coating materials and services and oilfield services.

2011 is a key milestone year for the Group. Notwithstanding the considerably volatile market conditions, the Company managed to complete the Global Offering and the listing of its shares on the Stock Exchange with the firm support of its investors. The successful 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 successful listing does not only provide the Group with necessary financing for its corporate development. More importantly, it evidences the recognition from international investors and provides the Company with an access to the international capital market, which is of great significance to the long term development of the Group.

The first half of 2011 witnessed various significant international events resulting in great uncertainties in the global economy, including the unrest in the oil-producing countries in North Africa that resulted in the fluctuation of international oil price, which in turn influenced the capital spending as well as the development directions of the large international oil and gas enterprises. Despite the ever-changing market conditions, the Group still achieved significant growth in its business, which was attributable to its technical advantages, well-developed sales and service network and solid customer base in each of its business segments. During the Interim Period, the Group recorded total revenue of approximately RMB755.1 million, representing an increase of 32.0% from the same period in 2010. Profit attributable to equity owners of the Company was approximately RMB116.2 million, representing an increase of 106.5% from the same period in 2010.

During the Interim Period, the Group achieved significant progress in each of its three business segments. In the drill pipes and related products segment, the Group made breakthrough in research and marketing of the high-end non-API drill pipes adapting to the market demand. The Group developed and commercialized certain patented drill pipe products that are capable of operating at greater depth and more complex geological environments, such as HL-v150 high strength drill pipe, double box tool joint drill pipe, and double shoulder drill pipe for shale gas exploration. In addition, the Group successfully attracted a number of globally renowned oil and gas companies as its new customers, including Saipem and National Drilling Company in Abu Dhabi. In the coating segment, the Group sought to increase its production capabilities for its proprietary products and services in light of the increasing demand. In particular, the commissioning of the Taicang plant significantly increased the Group's capacity of providing line pipe coating services, from 3,100 thousand square meters per year to around 4,300 thousand square meters per year. In its Shanghai production facilities, three new production lines for line pipe coating materials also started running in June 2011, leading to a capacity increase of around 20% on an annual basis. In the oilfield services segment, the Group had secured cooperation contract with Shell in Nigeria, which demonstrated the increasing recognition of the quality of oilfield services provided by the Group.

PROSPECTS

Looking ahead, the Group is confident in achieving bigger success and will continue to implement its business strategies in order to seek more returns for its shareholders.

The Group will continue its efforts on research and development ("R&D"). For drill pipes, the Group will still focus on the production and marketing of its high-end non-API drill pipes. In the coating segment, in addition to the R&D in its existing product categories, the Group will seek to widen the application of its coating materials to the offshore transmission pipes and refinery sectors.

In the meantime, the Group will continue to expand and upgrade its production capabilities. The Group will continue the construction of the OCTG coating plants in Sichuan Province in the PRC, Russia and Canada to break its bottleneck in capacities. In addition, the Group will continue to actively seek appropriate acquisition and alliance opportunities to further integrate vertically along the value chain.

The Group will seek to maintain its leading position in the PRC, and will actively explore more international markets, in particular, South America and Middle East.

In appreciation of the support from the shareholders, the Group hope to maintain a generous dividend policy with a dividend payout ratio of 20%-40% where its business development allows.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Net cash used in operating activities	**(28,598)**	(10,550)
Net cash used in investing activities	**(320,721)**	(46,430)
Net cash from financing activities	**324,766**	10,637
Net decrease in cash and cash equivalents	**(24,553)**	(46,343)
Cash and cash equivalents at beginning of the period	**246,936**	141,603
Cash and cash equivalents at end of the period	**221,436**	95,259

Operating Activities

Net cash used in operating activities during the Interim Period was RMB28.6 million, representing an increase of 171.1% compared with the same period in 2010, which was primarily attributable to the interest payment of RMB22.1 million and the income tax payment of RMB17.1 million, partially offset by the cash of RMB10.6 million generated from operations.

Investing Activities

Net cash used in investing activities during the Interim Period was RMB320.7 million, representing an increase of 590.8% compared with the same period in 2010, which was primarily attributable to the payment of RMB101.8 million in connection with the acquisition of non-controlling interests and the payment of RMB173.4 million in connection with purchase of property, plant and equipment.

Financing Activities

Net cash from financing activities for the Interim Period was RMB324.8 million, representing an increase of 2,953.2% compared with the same period in 2010, which was primarily because of the proceeds of RMB817.5 million from the Global Offering and the proceeds of RMB123.0 million from borrowings, partially offset by repayments of borrowings of RMB316.3 million and payment of RMB249.5 million in connection with the reorganization of the Group during the Interim Period.

CAPITAL EXPENDITURE

Capital expenditures were RMB54.2 million and RMB207.1 million for the six months ended 30 June 2010 and the Interim Period, respectively. The increase in capital expenditures during the Interim Period was primarily because of the purchase of drilling rigs and related equipments and the payment for land use rights in Shanghai.

INDEBTEDNESS

As at 30 June 2011, the outstanding indebtedness of RMB441.2 million was mainly denominated in RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Non-current		
Related party borrowing	–	10,565
Bank borrowings – unsecured	3,550	5,900
Less: Current portion of non-current borrowings	(3,550)	(15,265)
Current		
Bank borrowings – secured	146,000	401,758
Bank borrowings – unsecured	283,000	217,000
Related party borrowing	8,639	–
Series A preferred shares	–	169,401
Current portion of non-current borrowing	3,550	15,265
	441,189	804,624

Bank borrowings of RMB136.0 million were jointly secured by certain buildings and facilities and land use rights of the Group, with an aggregate carrying amount of RMB121.8 million as at 30 June 2011.

Bank borrowings of RMB10.0 million were secured by certain bank deposits of the Group, with total carrying amount of RMB5.0 million as at 30 June 2011.

MATERIAL ACQUISITIONS

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.

CHARGE ON ASSETS

Details of the Group's charge on assets as at 30 June 2011 are set out in Note 7 to the condensed consolidated interim financial information of this report.

STAFF AND REMUNERATION

As at 30 June 2011, the total number of full-time employees employed by the Group was 1,674 (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 30 June 2011:

On-site workers	**1,112**
Administrative	**328**
Research and development	**117**
Sales and marketing	**45**
Company management	**21**
After-sales services	**16**
Overseas representatives	**35**
	1,674

The Group offers employees remuneration packages mainly on the basis of individual performance and experience and also having 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 Company 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 the Interim Period, 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 sheets) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheets plus net debt.

The gearing ratios as at 30 June 2011 and 31 December 2010 are as follows:

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Total borrowings	**441,189**	804,624
Less: Cash and cash equivalents	**(221,436)**	(246,936)
Net debt	**219,753**	557,688
Total equity	**1,853,081**	905,609
Total capital	**2,072,834**	1,463,297
Gearing ratio	**11%**	38%

The decrease in the gearing ratio as at 30 June 2011 when compared to the gearing ratio as at 31 December 2010 resulted primarily from the significant decrease in the balance of borrowings and increase in total equity as the Company issued new shares under the Global Offering during the Interim Period.

FOREIGN EXCHANGE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currencies exposures, primarily with respect to United States ("US") dollars. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi into foreign currencies, including the US dollars, has been 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 21.8% appreciation of Renminbi against the US dollars from 21 July 2005 to 30 June 2011. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against US dollars. The Group has not entered into any hedging transactions against any fluctuation in foreign currencies. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates. However, the effectiveness of such transactions may be limited. During the six months ended 30 June 2010 and 2011, the revenue denominated in US dollars represented 14.0% and 42.8% respectively, of the total revenue of the Company.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		(Unaudited) Six months ended 30 June	
		2011	2010
	Note	**RMB'000**	RMB'000
Revenue	*6(a)*	**755,141**	571,974
Cost of sales		**(423,343)**	(347,925)
Gross profit		**331,798**	224,049
Selling and marketing expenses		**(43,133)**	(37,445)
Administrative expenses		**(103,413)**	(65,593)
Other (losses)/gains – net	*13*	**(2,307)**	291
Operating profit		**182,945**	121,302
Finance income	*14*	**1,478**	280
Finance costs	*14*	**(28,651)**	(12,081)
Finance costs – net		**(27,173)**	(11,801)
Share of results of:			
– Associates		**838**	1,297
– Jointly controlled entities		**(5,320)**	(8,587)
Profit before income tax		**151,290**	102,211
Income tax expense	*15*	**(24,235)**	(22,841)
Profit for the period		**127,055**	79,370
Profit attributable to:			
Equity owners of the Company		**116,235**	56,289
Non-controlling interests		**10,820**	23,081
		127,055	79,370
Earnings per share from operations attributable to equity owners of the Company			
Basic and diluted earnings per share (in RMB)	*16*	**0.0880**	0.0492
Dividends	*17*	**51,891**	10,000

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit for the period	**127,055**	79,370
Other comprehensive income:		
Currency translation differences	**(2,367)**	(291)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary	**(2,313)**	1,081
Other comprehensive income for the period, net of tax	**(4,680)**	790
Total comprehensive income for the period	**122,375**	80,160
Attributable to:		
Equity owners of the Company	**111,555**	57,079
Non-controlling interests	**10,820**	23,081
	122,375	80,160

	Note	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**864,641**	733,292
Lease prepayments	*7*	**87,055**	55,788
Intangible assets	*7*	**13,490**	11,780
Investments in associates		**78,123**	78,811
Investments in jointly controlled entities		**9,029**	6,279
Deferred income tax assets	*15*	**44,409**	37,551
Other long-term assets		**962**	219
		1,097,709	923,720
Current assets			
Inventories		**377,198**	365,522
Trade and other receivables	*8*	**1,095,603**	1,179,748
Restricted cash		**8,783**	52,570
Cash and cash equivalents		**221,436**	246,936
		1,703,020	1,844,776
Total assets		**2,800,729**	2,768,496
EQUITY			
Capital and reserves attributable to equity owners of the Company			
Share capital	*9*	**134,315**	811
Other reserves	*10*	**733,327**	(82,328)
Retained earnings		**840,460**	776,116
Currency translation differences		**(16,483)**	(11,803)
		1,691,619	682,796
Non-controlling interests		**161,462**	222,813
Total equity		**1,853,081**	905,609

	Note	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	–	1,200
Deferred income tax liabilities	*15*	81,712	77,061
Deferred revenue		14,063	13,650
		95,775	91,911
Current liabilities			
Deferred revenue		275	405
Trade and other payables	*12*	387,505	953,422
Current income tax liabilities		22,904	13,592
Derivative financial instruments	*11(b)*	–	133
Borrowings	*11*	441,189	803,424
		851,873	1,770,976
Total liabilities		947,648	1,862,887
Total equity and liabilities		2,800,729	2,768,496
Net current assets		851,147	73,800
Total assets less current liabilities		1,948,856	997,520

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		(Unaudited)						
		Capital and reserves attributable to equity owners						
	Note	Share capital RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2010		–	211,007	619,343	(9,002)	821,348	191,839	1,013,187
Comprehensive income								
Profit for the period		–	–	56,289	–	56,289	23,081	79,370
Other comprehensive income								
Currency translation differences		–	–	–	(291)	(291)	–	(291)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		–	–	–	1,081	1,081	–	1,081
Total comprehensive income for the period		–	–	56,289	790	57,079	23,081	80,160
Transactions with owners								
Capital increase to subsidiaries by their then equity owners	*10(1)*	–	6,044	–	–	6,044	–	6,044
Dividends declared and paid to the then equity owner	*17*	–	–	(10,000)	–	(10,000)	–	(10,000)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(25,997)	(25,997)
As at 30 June 2010		–	217,051	665,632	(8,212)	874,471	188,923	1,063,394
As at 1 January 2011		**811**	**(82,328)**	**776,116**	**(11,803)**	**682,796**	**222,813**	**905,609**
Comprehensive income								
Profit for the period		**–**	**–**	**116,235**	**–**	**116,235**	**10,820**	**127,055**
Other comprehensive income								
Currency translation differences		**–**	**–**	**–**	**(2,367)**	**(2,367)**	**–**	**(2,367)**
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		**–**	**–**	**–**	**(2,313)**	**(2,313)**	**–**	**(2,313)**
Total comprehensive income for the period		**–**	**–**	**116,235**	**(4,680)**	**111,555**	**10,820**	**122,375**
Transactions with owners								
Issue of new shares pursuant to global initial public offering, netting of listing expenses	*9(e)*	**33,576**	**783,905**	**–**	**–**	**817,481**	**–**	**817,481**
Series A preferred shares converted into ordinary shares	*9(f)*	**4**	**170,128**	**–**	**–**	**170,132**	**–**	**170,132**
Capitalization issue	*9(g)*	**99,924**	**(99,924)**	**–**	**–**	**–**	**–**	**–**
Capital increase to subsidiaries by their then equity owners	*10(1)*	**–**	**5,275**	**–**	**–**	**5,275**	**–**	**5,275**
Capital increase to subsidiaries by non-controlling interests		**–**	**–**	**–**	**–**	**–**	**2,960**	**2,960**
Consideration paid to the then equity owners for acquisition of subsidiaries under common control	*10(1)*	**–**	**(9,529)**	**–**	**–**	**(9,529)**	**–**	**(9,529)**
Pre-IPO share option plan	*10(2)*	**–**	**4,550**	**–**	**–**	**4,550**	**–**	**4,550**
Dividends in respect of 2010	*17*	**–**	**–**	**(51,891)**	**–**	**(51,891)**	**–**	**(51,891)**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(5,453)**	**(5,453)**
Transactions with non-controlling interests	*19*	**–**	**(38,750)**	**–**	**–**	**(38,750)**	**(69,678)**	**(108,428)**
As at 30 June 2011		**134,315**	**733,327**	**840,460**	**(16,483)**	**1,691,619**	**161,462**	**1,853,081**

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Cash flow from operating activities		
Cash generated from operations	**10,593**	11,275
Interest paid	**(22,061)**	(12,056)
Income tax paid	**(17,130)**	(9,769)
Net cash used in operating activities	**(28,598)**	(10,550)
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	**105**	3,263
Purchases of property, plant and equipment	**(173,433)**	(54,217)
Purchases of lease prepayments	**(31,800)**	–
Purchases of intangible assets	**(1,900)**	–
Transaction with non-controlling interests	**(101,756)**	–
Investment in jointly controlled entities	**(11,937)**	–
Dividends received	**–**	4,524
Net cash used in investing activities	**(320,721)**	(46,430)
Cash flow from financing activities		
Issue of new shares pursuant to global initial public offering, netting of listing expenses	**817,481**	–
Contributions to subsidiaries by their then equity owners	**5,275**	6,044
Net cash outflow arising from consideration paid to the then equity owners for acquisition of subsidiaries under common control	**(249,528)**	–
Proceeds from borrowings	**123,000**	203,000
Repayments of borrowings	**(316,284)**	(170,350)
Dividends paid to the non-controlling interests of the subsidiaries	**(3,287)**	(26,227)
Dividends in respect of 2010	**(51,891)**	–
Dividends paid to the then equity owner	**–**	(1,830)
Net cash generated from financing activities	**324,766**	10,637
Net decrease in cash and cash equivalents	**(24,553)**	(46,343)
Exchange losses on cash and cash equivalents	**(947)**	(1)
Cash and cash equivalents at beginning of the period	**246,936**	141,603
Cash and cash equivalents at end of the period	**221,436**	95,259

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 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 condensed consolidated interim financial information is presented in Renminbi (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 26 August 2011.

This condensed consolidated interim financial information has not been audited.

(ii) History and Reorganization of the Group

Prior to the Reorganization, the business of the Group was owned and operated through two holding companies, Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. ("Huashi Hailong") and Hailong International (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 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 that engaged in the business of manufacturing and distribution of oil and gas equipment, coating materials and provision of coating services and oilfield services, including Hilong Group of Companies Ltd., to Hilong Energy Limited, for a total cash consideration of RMB320,109,000.

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

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

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

(a) 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.

- Amendment to HKAS 34 "Interim financial reporting" is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasizes has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant) and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

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

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. This is not currently applicable to the Group, as it is not controlled by government related entities and the government.

- 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.

- 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.

- 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.

3 ACCOUNTING POLICIES (continued)

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

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by Hong Kong Institute of Certified Accountants, except for amendment to HKAS 34 "Interim financial reporting" as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all of which are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

(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

- HKFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. There will be no impact on the Group's accounting for financial assets and financial liabilities, as the Group does not have any such assets or liabilities. The derecognition rules have been transferred from HKAS 39 "Financial instruments: Recognition and measurement" and have not been changed. The Group has not yet decided when to adopt HKFRS 9.

- HKAS 12 (Amendment) "Deferred tax: Recovery of underlying assets" introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

- HKFRS 7 (Amendment) "Disclosures – Transfers of financial assets" introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remaining on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.

4 ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2010.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

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

5.2 Fair value estimation

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

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

In 2011 there was no transfer between levels of the fair value hierarchy used in measuring the fair value of financial instruments.

In 2011 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

In 2011 there were no reclassifications of financial assets.

6 SEGMENT INFORMATION

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

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

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

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

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

- Oil and gas equipment production, including the production of drilling pipes which are used in drilling exploration or production wells for oil and gas producers;
- Coating materials production and coating service provision, including the production of coating materials for anticorrosive purpose and provision of coating services (the interior of most of the drilling pipes needs to be coated with anticorrosive chemicals); and
- Oilfield services provision, including the provision of well drilling services to oil and gas producers.

(a) Revenues

The revenue of the Group for the six months ended 30 June 2011 and 2010 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Drill pipes and related products	**355,129**	290,156
Coating materials and services	**225,660**	191,962
Oilfield services	**174,352**	89,856
	755,141	571,974

6 SEGMENT INFORMATION (continued)

(b) Segment information

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

	Six months ended 30 June 2011 (Unaudited)			
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	382,361	243,171	174,352	799,884
Inter-segment sales	(27,232)	(17,511)	–	(44,743)
Revenue from external customers	355,129	225,660	174,352	755,141
Results				
Segment gross profit	150,946	101,948	78,904	331,798
Segment profit	88,099	60,965	33,881	182,945
Finance income				1,478
Finance costs				(28,651)
Share of profits of associates				838
Share of losses of jointly controlled entities				(5,320)
Profit before income tax				151,290
Other information				
Depreciation of property, plant and equipment	19,185	5,501	10,320	35,006
Amortization of lease prepayments	444	89	–	533
Amortization of intangible assets	107	83	–	190
Capital expenditure	61,393	9,061	136,679	207,133
Segment assets	1,406,477	564,623	742,477	2,713,577
Investments in associates				78,123
Investments in jointly controlled entities				9,029
Total assets				2,800,729
Total liabilities	580,560	243,707	123,381	947,648

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2010 is as follows:

	Six months ended 30 June 2010 (Unaudited)			
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	318,904	211,982	89,856	620,742
Inter-segment sales	(28,748)	(20,020)	–	(48,768)
Revenue from external customers	290,156	191,962	89,856	571,974
Results				
Segment gross profit	94,285	95,610	34,154	224,049
Segment profit	48,204	65,014	8,084	121,302
Finance income				280
Finance costs				(12,081)
Share of profits of associates				1,297
Share of losses of jointly controlled entities				(8,587)
Profit before income tax				102,211
Other information				
Depreciation of property, plant and equipment	20,957	4,712	5,611	31,280
Amortization of lease prepayments	474	40	–	514
Amortization of intangible assets	12	123	4	139
Capital expenditure	22,479	20,666	11,072	54,217
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

6 SEGMENT INFORMATION (continued)

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
The PRC	**390,009**	389,284
North and South America	**148,806**	60,951
Middle East	**138,835**	18,428
Russia, Central Asia and East Europe	**58,990**	103,311
West Africa	**18,501**	–
	755,141	571,974

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June 2011 RMB'000	31 December 2010 RMB'000
The PRC	**677,523**	591,779
Middle East	**74,064**	72,472
North and South America	**79,367**	82,487
West Africa	**74,347**	–
Russia, Central Asia and East Europe	**59,885**	54,122
	965,186	800,860

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

	(Unaudited) Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
The PRC	**115,166**	52,452
West Africa	**74,347**	–
Russia, Central Asia and East Europe	**10,844**	1,435
Middle East	**4,214**	–
North and South America	**2,562**	330
	207,133	54,217

During the six months ended 30 June 2011 and 2010, revenue from individual customer did not exceed ten percent of the Group's total consolidated revenue.

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

	(Unaudited)		
	Property, plant and equipment RMB'000	**Lease prepayments RMB'000**	**Intangible assets RMB'000**
At 1 January 2010			
Cost	714,268	50,198	15,552
Accumulated depreciation	(106,254)	(4,507)	(1,425)
Impairment provision	–	–	(2,097)
Net book amount	608,014	45,691	12,030
Six months ended 30 June 2010			
Opening net book amount	608,014	45,691	12,030
Additions	54,217	–	–
Disposal	(3,214)	–	–
Depreciation	(31,280)	(514)	(139)
Exchange differences	29	–	–
Closing net book amount	627,766	45,177	11,891
At 30 June 2010			
Cost	764,844	50,198	15,552
Accumulated depreciation	(137,078)	(5,021)	(1,564)
Impairment provision	–	–	(2,097)
Net book amount	627,766	45,177	11,891
At 1 January 2011			
Cost	**889,624**	**61,172**	**15,568**
Accumulated depreciation	**(156,332)**	**(5,384)**	**(1,691)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**733,292**	**55,788**	**11,780**
Six months ended 30 June 2011			
Opening net book amount	**733,292**	**55,788**	**11,780**
Additions	**173,433**	**31,800**	**1,900**
Disposals	**(56)**	**–**	**–**
Depreciation	**(35,006)**	**(533)**	**(190)**
Exchange differences	**(7,022)**	**–**	**–**
Closing net book amount	**864,641**	**87,055**	**13,490**
At 30 June 2011			
Cost	**1,055,207**	**92,972**	**17,468**
Accumulated depreciation	**(190,566)**	**(5,917)**	**(1,881)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**864,641**	**87,055**	**13,490**

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

As at 30 June 2011, certain buildings and facilities with carrying amount of RMB83,892,000 (31 December 2010: RMB88,411,000) were secured for the Group's borrowing (Note 11(a)).

As at 31 December 2010, certain machinery and equipment with carrying amount of RMB87,906,000 were secured for the Group's borrowing (Note 11(a)).

As at 30 June 2011, certain land use right with a carrying amount of RMB37,895,000 (31 December 2010: RMB39,747,000) was pledged as collaterals for the Group's borrowings (Note 11(a)).

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Bills receivable	**16,080**	5,727
Trade receivables *(a)*		
– Due from third parties	**727,275**	710,648
– Due from related parties *(Note 18(c))*	**57,447**	55,025
Trade receivables – gross	**784,722**	765,673
Less: Provision for impairment of receivables	**(11,033)**	(11,033)
Trade receivables – net	**773,689**	754,640
Other receivables	**194,987**	336,271
Dividends receivable *(Note 18(c))*	**1,526**	–
Prepayments	**109,321**	83,110
Trade and other receivables	**1,095,603**	1,179,748

(a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables, before provision for impairment, as at 30 June 2011 and 31 December 2010 were as follows:

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Trade receivables, gross		
– Within 90 days	**514,417**	444,062
– Over 90 days and within 180 days	**92,138**	202,662
– Over 180 days and within 360 days	**105,570**	50,981
– Over 360 days and within 720 days	**49,347**	37,369
– Over 720 days	**23,250**	30,599
	784,722	765,673

As at 31 December 2010, trade receivables of RMB178,411,000 were secured for the Group's borrowing (Note 11(a)).

9 SHARE CAPITAL

	Note	Number of ordinary shares	(Unaudited) 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 30 June 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
As at 30 June 2011		1,600,000,000	160,000,000	134,315,000

9 SHARE CAPITAL (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.

(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 11(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 obligations to deliver cash or another financial assets were discharged (Note 11(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 the Company passed on 28 February 2011, the issue of 1,199,000,000 shares, including 1,143,006,700 shares issued to Hilong Group Limited and Mr. Zhang's Family Trusts and 55,993,300 shares issued to UMW China Ventures (L) Ltd., was made upon capitalization of an amount of HK$119,900,000 (equivalent to RMB99,924,000) standing to the credit of the share premium account of the Company, which resulting in the increase in issued share capital of the Company by RMB99,924,000 and the decrease in share premium by RMB99,924,000.

10 OTHER RESERVES

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Statutory reserve	**76,395**	76,395
Share premium *(Note 9(e), (f), (g))*	**854,109**	–
Capital reserve	**97**	97
Merger reserve *(1)*	**(201,824)**	(158,820)
Share options reserve *(2)*	**4,550**	–
	733,327	(82,328)

(1) Merger reserve

	(Unaudited) Six months ended 30 June 2011 RMB'000	2010 RMB'000
Beginning of the period	**(158,820)**	142,205
Transactions with non-controlling interests *(Note19)*	**(38,750)**	–
Contribution to subsidiaries by their then equity owners *(a)*	**5,275**	6,044
Consideration paid to the then equity owners for acquisition under common control *(b)*	**(9,529)**	–
End of the period	**(201,824)**	148,249

(a) Contribution to subsidiaries by their then equity owners

Contribution to subsidiaries by their then equity owners in six months ended 30 June 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 six months ended 30 June 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.

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

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

10 OTHER RESERVES (continued)

(2) Share options reserve

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

On 28 February 2011, 46,322,000 Pre-IPO share options were granted to directors and employees. The share options outstanding as at 30 June 2011 have the following vesting dates and exercise prices:

	(Unaudited) Six months ended 30 June 2011		
Vesting date	**Exercise price (per share in HK$)**	**Exercise price (equivalent to RMB)**	**Outstanding shares**
21 April 2012	2.60	2.34	9,264,400
21 April 2013	2.60	2.34	9,264,400
21 April 2014	2.60	2.34	9,264,400
21 April 2015	2.60	2.34	9,264,400
21 April 2016	2.60	2.34	9,264,400
	2.60	2.34	46,322,000

The fair value of the Pre-IPO share options granted during the six months ended 30 June 2011 have been valued by an independent qualified valuer using Binomial valuation model as follows,

	(Unaudited) Granting date RMB'000
Total fair value of Pre-IPO share options	32,804

The significant inputs into the model were as follows,

	(Unaudited) Granting date	
	In HK$	**Equivalent to RMB**
Spot share price	2.60	2.34
Exercise price	2.60	2.34
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

11 BORROWINGS

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Non-current		
Related party borrowing	**–**	10,565
Bank borrowings – unsecured	**3,550**	5,900
Less: Current portion of non-current borrowings	**(3,550)**	(15,265)
	–	1,200
Current		
Bank borrowings – secured *(a)*	**146,000**	401,758
Bank borrowings – unsecured	**283,000**	217,000
Related party borrowing *(c)*	**8,639**	–
Series A preferred shares *(b)*	**–**	169,401
Current portion of non-current borrowing	**3,550**	15,265
	441,189	803,424
	441,189	804,624

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June 2011 RMB'000	2010 RMB'000
Opening amount	**804,624**	438,396
Additions of borrowings	**123,000**	203,000
Repayments of borrowings	**(316,284)**	(170,350)
Changes in fair value	**(133)**	–
Series A preferred shares to be settled by cash	**(5,814)**	–
Series A preferred shares converted into ordinary shares and share premium *(Note 9(f))*	**(170,132)**	–
Initial recognition and amortization of interest-free loan by using effective interest method	**(486)**	472
Amortization of liability component of Series A preferred shares	**6,545**	–
Exchange difference	**(131)**	18
Closing amount	**441,189**	471,536

11 BORROWINGS (continued)

As at 30 June 2011 and 31 December 2010, the contractual maturities of the Group's financial liabilities were as follows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	(Unaudited)					
	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 contractual cash flows RMB'000	Carrying amount RMB'000
As at 30 June 2011						
Borrowings, including interest payables	452,616	–	–	–	452,616	441,189
Trade and other payables, except for the advance from customers and staff salaries and welfare payables	338,894	–	–	–	338,894	338,894
	791,510	–	–	–	791,510	780,083

	(Audited)					
	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 contractual cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2010						
Borrowings, including interest payables	834,245	1,725	–	–	835,970	804,624
Trade and other payables, except for the advance from customers and staff salaries and welfare payables	847,240	–	–	–	847,240	847,240
	1,681,485	1,725	–	–	1,683,210	1,651,864

The Group did not have undrawn bank borrowing facilities as at 30 June 2011 and 31 December 2010.

(a) Secured bank borrowings

The bank borrowings of RMB136,000,000 were jointly secured by certain buildings and facilities and land use rights (Note 7) of the Group, with an aggregate carrying amount of RMB121,787,000 as at 30 June 2011;

The bank borrowings of RMB100,000,000 were guaranteed by Mr. Zhang Jun; the bank borrowings of RMB40,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang; 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 7) and certain trade receivables with carrying amount of RMB178,411,000 (Note 9) of the Group; the bank borrowings of RMB116,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun, and secured by certain buildings and facilities and land use rights of the Group, with aggregate carrying amount of RMB124,287,000 (Note 7); and bank borrowings of RMB7,000,000 were secured by certain buildings and facilities and land use rights of the Group, with aggregate carrying amount of RMB3,871,000 (Note 7) as at 31 December 2010;

The bank borrowings of RMB10,000,000 were secured by certain bank deposit of the Group, with total carrying amount of RMB5,000,000 as at 30 June 2011;

The bank borrowings of RMB10,000,000 were secured by certain bank deposit of the Group, with total carrying amount of RMB5,000,000 as at 31 December 2010.

11 BORROWINGS (continued)

(b) Series A preferred shares

In August 2010, pursuant to an investment agreement, UMW China Ventures (L) Ltd. ("UMW CV"), the non-controlling shareholder, agreed to subscribe to 46,700 Series A preferred shares issued by the Company at a price of RMB3,595 per share with total amount of RMB167,890,000. The significant terms of Series A preferred shares are summarized as follows:

i. Dividends

The holder of Series A 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 preferred shares shall convert all of its Series A 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.

iii. Re-conversion

Unless otherwise agreed by the Parties, the holder of Series A preferred shares shall re-convert all of its ordinary shares to Series A 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 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 preferred 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 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 Limited 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.

11 BORROWINGS (continued)

(b) Series A preferred shares (continued)

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 close 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.

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 preferred shares after its issuance is as follows:

	(Unaudited)		
	The liability component (Borrowings) RMB'000	**Derivative financial instruments RMB'000**	**Total RMB'000**
As at 1 January 2011	**169,401**	**133**	**169,534**
Changes in fair value	**–**	**(133)**	**(133)**
Amortization using the effective interest method *(Note 14)*	**6,545**	**–**	**6,545**
To be settled by cash	**(5,814)**	**–**	**(5,814)**
Converted into ordinary shares and share premium *(Note 9(f))*	**(170,132)**	**–**	**(170,132)**
As at 30 June 2011	**–**	**–**	**–**

(c) Related party borrowing

Related party borrowing represented loans borrowed from Hailong International, which are unsecured, interest free, repayable within 1 year of RMB9,070,000, using the contractual undiscounted cash flow. The related party borrowing was recognized initially at its fair value and subsequent measured at amortized cost using effective interest method.

12 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Bills payable	**34,574**	98,176
Trade payables:		
– Due to third parties	**199,177**	239,797
– Due to related parties *(Note 18(c))*	**7,962**	41,256
Other payables:		
– Due to third parties	**29,875**	67,759
– Due to related parties *(Note 18(c))*	**25,664**	319,301
Staff salaries and welfare payables	**9,233**	10,098
Advance from customers	**39,378**	96,084
Interest payables	**222**	475
Accrued taxes other than income tax	**16,446**	23,820
Dividends payable	**18,870**	51,852
Other liabilities	**6,104**	4,804
	387,505	953,422

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

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Trade payables, gross		
– Within 90 days	**149,305**	195,316
– Over 90 days and within 180 days	**16,738**	26,855
– Over 180 days and within 360 days	**8,941**	1,694
– Over 360 days and within 720 days	**9,695**	5,411
– Over 720 days	**22,460**	51,777
	207,139	281,053

13 OTHER (LOSSES)/GAINS – NET

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Exchange losses	**(6,071)**	(312)
Government grants	**3,570**	460
Changes in fair value of Series A preferred share *(Notes 11(b))*	**133**	–
Gain on disposal of property, plant and equipment – net	**49**	49
Others	**12**	94
	(2,307)	291

14 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**694**	280
– Initial recognition of an interest-free related party borrowing using effective interest method *(Note 11(c))*	**784**	–
	1,478	280
Finance cost:		
– Amortization of an interest-free related party borrowing using effective interest method *(Note 11(c))*	**(298)**	(472)
– Amortization of the liability component of Series A preferred shares using effective interest method *(Note 11(b))*	**(6,545)**	–
– Interest expense on bank borrowings	**(21,808)**	(11,609)
	(28,651)	(12,081)
Finance costs – net	**(27,173)**	(11,801)

15 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Current income tax	**26,442**	17,660
Deferred income tax	**(2,207)**	5,181
Income tax expense	**24,235**	22,841

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the six months ended 30 June 2011 and 2010.

Enterprises incorporated in other places are subject to income tax rates of 20% to 25% prevailing in the places in which the Group operated for the six months ended 30 June 2011 and 2010.

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

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

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

Pursuant to the Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared and distributed to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. Deferred income tax liabilities of RMB8,402,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries in the six months ended 30 June 2011. Such amounts are permanently reinvested. Unremitted earnings totaled RMB84,020,000 at 30 June 2011(31 December 2010: nil).

16 EARNINGS PER SHARE

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

The weighted average number of ordinary shares deemed to be outstanding during the six months ended 30 June 2010 is determined on the assumption that 953,300 shares issued to Hilong Group Limited upon the incorporation of the Company and in connection with the reorganisation had been in issue since 1 January 2010 and the subdivision of number of shares by a multiple of 1,200 as described in Note 9 had been effected on 1 January 2010.

	(Unaudited) Six months ended 30 June	
	2011	2010
Basic and diluted profit attributable to equity owners of the Company (RMB'000)	**116,235**	56,289
Basic and diluted weighted average number of ordinary shares outstanding (thousands)	**1,321,309**	1,143,960
Basic and diluted earnings per share (RMB)	**0.0880**	0.0492

For the six months ended 30 June 2011, there were no differences in the weighted-average number of ordinary shares used for basic and diluted earnings per ordinary share as the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive. As at 30 June 2011, there were 46,322,000 share options outstanding that could potentially have a dilutive impact in the future but were anti-dilutive in the six months ended 30 June 2011. For the six months ended 30 June 2011, the Company had no dilutive potential share.

17 DIVIDENDS

	(Unaudited) Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Dividend in respect of 2010 *(a)*	**51,891**	–
Dividends declared and paid to the then equity owners	**–**	10,000
	51,891	10,000

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

The directors resolved not to declare the payment of an interim dividend in respect of the six months ended 30 June 2011.

18 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2011 and 2010, and balances arising from related party transactions as at 30 June 2011 and 31 December 2010.

(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
Huashi Hailong
Beijing Huashi Hilong Oil Investment Co., Ltd.
Huashi Audio Visual Investment (Beijing) Co., Ltd.
Jiangyan Hilong Wire Welding 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.

(v) Jointly controlled entities of the Group

Almansoori Hilong Petroleum Pipe Company
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

(vi) Controlled by key management personnel

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

18 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the six months ended 30 June 2011 and 2010, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Sales of goods:		
Almansoori Hilong Petroleum Pipe Company	**57,693**	8,934
Nantong Hilong Steel Pipe Co., Ltd.	**14,330**	–
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**11,082**	4,592
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**3,732**	3,551
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**3,258**	1,969
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**–**	3,551
	90,095	22,597
Purchase of materials:		
Nantong Hilong Steel Pipe Co., Ltd.	**21,444**	21,693
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	712
	21,444	22,405

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

(c) Balances with related parties

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Trade receivables due from:		
Almansoori Hilong Petroleum Pipe Company	**23,969**	28,239
Nantong Hilong Steel Pipe Co., Ltd.	**16,766**	11,000
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**10,203**	3,383
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,683**	1,544
Jiangyan Hilong Wire Welding Co., Ltd.	**1,466**	3,188
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**1,301**	2,756
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**875**	2,640
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**184**	184
Hilong USA LLC.	**–**	2,091
	57,447	55,025

18 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Other receivables due from:		
Almansoori Hilong Petroleum Pipe Company	**66,037**	1,085
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	**21,373**	18,052
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**15,619**	11,703
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**14,902**	13,230
Nantong Hilong Steel Pipe Co., Ltd.	**12,084**	12,632
Shanxi Ante Petroleum Engineering Technology Co., Ltd.	**10,400**	10,400
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**7,450**	2,685
Huashi Hailong	**3,437**	160,075
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	58,524
Hilong Oil Pipe Co., Ltd.	**–**	2,035
Huashi Audio Visual Investment (Beijing) Co., Ltd.	**–**	6,651
	151,302	297,072
Prepayments to:		
Nantong Hilong Steel Pipe Co., Ltd.	**10,736**	–
Shanghai Yuanzhi Metallurgical Co., Ltd.	**6,000**	–
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	23,350
	16,736	23,350
Dividends receivable due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**1,526**	–
Trade payables due to:		
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd	**4,767**	4,767
CNOOC Tube-Cote Tianjin Pipe Co., Ltd.	**3,099**	3,382
Beijing Huashi Hilong Oil Investment Co., Ltd.	**96**	745
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	2,714
Huashi Hailong	**–**	29,648
	7,962	41,256
Other payables due to:		
Nantong Hilong Steel Pipe Co., Ltd.	**23,000**	–
Hailong International	**2,664**	317,072
Huashi Hailong	**–**	2,193
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	36
	25,664	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 11(c))*	**8,639**	10,565

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

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

(i) 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 payable/paid to non-controlling interests	(42,893)
Excess of consideration payable/paid recognised in the capital reserve within equity	(8,177)

(ii) 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 payable/paid to non-controlling interests	(36,310)
Excess of consideration payable/paid recognised in the capital reserve within equity	(7,100)

(iii) 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 payable/paid to non-controlling interests	(29,225)
Excess of consideration payable/paid recognised in the capital reserve within equity	(23,473)

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

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

	RMB'000
Total comprehensive income for the period attributable to the equity owners of the Company	111,555
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	72,805

20 COMMITMENTS

(a) Capital commitments

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

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Property, plant and equipment	**–**	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:

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
No later than 1 year	**3,196**	4,176
Later than 1 year and no later than 3 years	**6,577**	5,249
Later than 3 years	**9,170**	10,020
	18,943	19,445

DISCLOSURE OF INTERESTS

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

As at 30 June 2011, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of 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 interested	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)]	60.75%
	Founder and beneficiary of three Mr. Zhang's family trusts/ Held by controlled corporations	112,000,800[(2)]	7.00%
Ms. Zhang Shuman	Held by controlled corporation	24,000,000[(3)]	1.50%
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 the 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%

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

As at 30 June 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 positions in the shares of the Company:

Name of shareholders	Capacity	Number of shares interested	Percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	971,959,200(1)	60.75%
Global Nominees Ltd.	Nominee	1,083,960,000(1)(2)	67.75%
Standard Chartered Trust (Cayman) Limited	Trustee	1,083,960,000(1)(2)	67.75%
Ms. Gao Xia	Interests of spouse	1,084,560,000(3)	67.79%

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.

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a Pre-IPO share option scheme (the "Scheme") on 28 February 2011. The Scheme commenced on 1 January 2011. The grantees to whom an option has been granted under the Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the 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. During the Interim Period, options to subscribe for an aggregate of 46,322,000 shares have been granted.

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

Category/name of participants	Number of share options					Exercise price	Weighted average closing price immediately before exercise date	Grant date
	Outstanding as at 1 January 2011	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2011			
						HK$	HK$	
Directors								
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	N/A	1 January 2011
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	N/A	1 January 2011
Mr. Ji Min	800,000	–	–	–	800,000	2.60	N/A	1 January 2011
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	N/A	1 January 2011
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	N/A	1 January 2011
In aggregate	6,300,000	–	–	–	6,300,000			
Other employees								
In aggregate	40,022,000	–	–	–	40,022,000	2.60	N/A	1 January 2011
Total	46,322,000	–	–	–	46,322,000			

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance. Since the Listing Date and up to the date of this report, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code, except that:

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 Company has not formalized the functions reserved to the Board and those delegated to the management. The Board would consider to make 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.

Model Code for Directors' 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 as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific enquiries to all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code since the Listing Date and up to the date of this report, except that:

Mr. Lee Siang Chin, an independent non-executive director of the Company, 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 remind 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.

REVIEW OF INTERIM REPORT

The audit committee of the Company, consisting of Mr. Wang Tao (汪濤), Mr. Wang Tao (王濤) and Mr. Lee Siang Chin, has reviewed the interim report for the Interim Period before it was sent to the Board for approval.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company since the Listing Date and up to 30 June 2011.

APPRECIATION

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

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

26 August 2011

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