



海隆控股有限公司
Hilong Holding Limited

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



2011 Interim Results Presentation

August 2011

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Company Overview



Hilong is a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipes and OCTG coatings and oilfield services

Business Segments

- Drill pipe and related products
- Line pipe and OCTG coating materials and services
- Oilfield services

Financial Summary

- 2011 1H revenue: RMB755MM, +32.0% YoY
- 2011 1H operating profit: RMB 183 MM, +50.8% YoY
- 2011 1H net profit attributable to shareholders : RMB116MM, +106.5% YoY
- Total asset as of June 30, 2011: RMB2,801MM

Competitive Strength

- Market leadership in key oilfield equipment products and services
- Established relationships with major international oil and gas companies supported by proven product quality
- Significant benefits derived from a vertically integrated business model
- Innovation-driven research and development capabilities
- Experienced management team with a proven track record

Business Strategy

- Continue to focus on high end products in existing product categories
- Further expand into drilling and other oilfield services areas
- Solidify leadership in the PRC market through capacity upgrades and vertical integration
- Expand international footprint at strategic locations
- Actively seek strategic acquisitions and alliances

2011 First Half Review



- ❖ **Successfully listed on the Main Board of the Stock Exchange of Hong Kong on 21 April 2011 in a volatile market environment. The Group issued 400 million new shares at HK\$2.60, raising a total proceeds of HK\$1.04 billion**
- ❖ **Extended global footprint**
 - ❖ Attracted new quality customers internationally, including Shell, Saipem, and National Oil Company (NDC)
 - ❖ Entered new overseas markets including Nigeria and Oman
- ❖ **Expanded and upgraded production capacity**
 - ❖ Line pipe coating materials: three new production lines in Shanghai started running in June with annual capacity contribution of four thousand tons going forward
 - ❖ Line pipe coating services: Taicang plant started production in June with annual capacity of 1.5 million square meters going forward
 - ❖ Drill pipe: production facility in Shanghai is being upgraded to improve production efficiency and to develop production capabilities in high-end products
- ❖ **Various newly developed products and technologies**
 - ❖ HL- V150 high strength drill pipe, four-inch drill pipe, aluminium alloy drill pipe, and shale gas drill pipe ect.
 - ❖ New coating materials for tubing and casing, and for oilfield transmission pipes



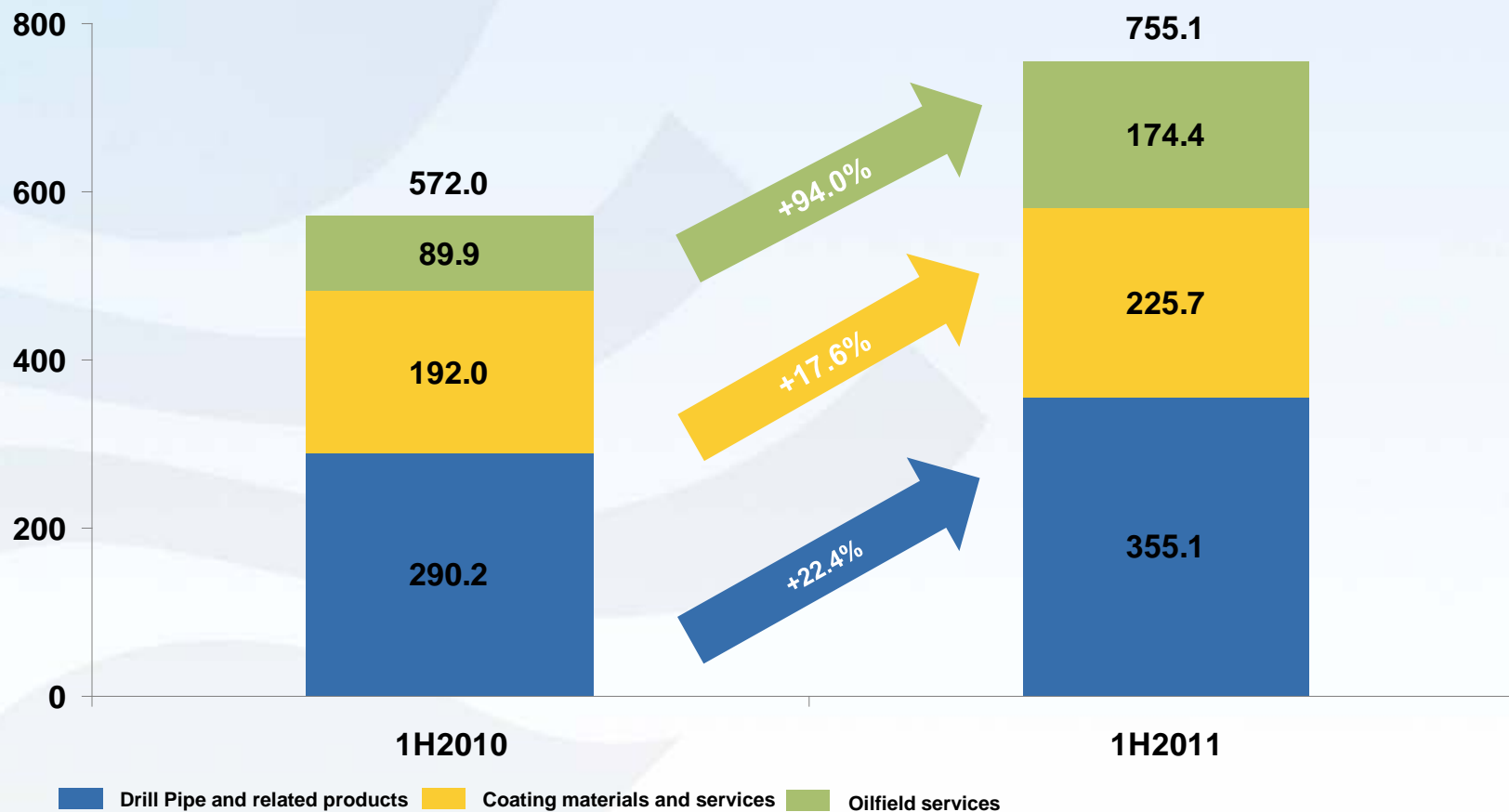
I. Results Highlights

Revenue: Strong Growth Across Segments



Revenue Increased by 32.0% YoY

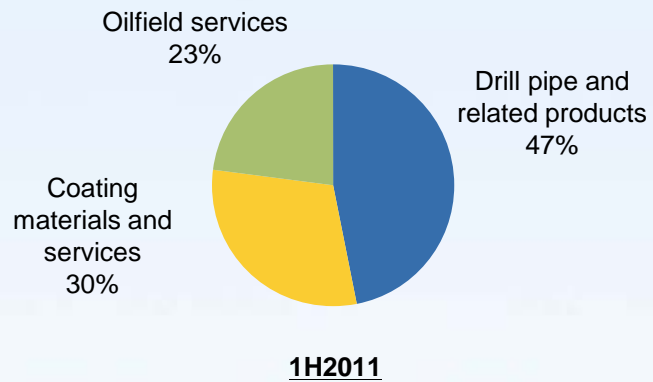
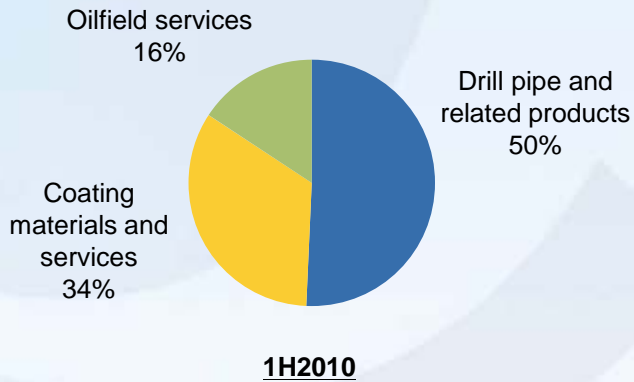
RMB MM



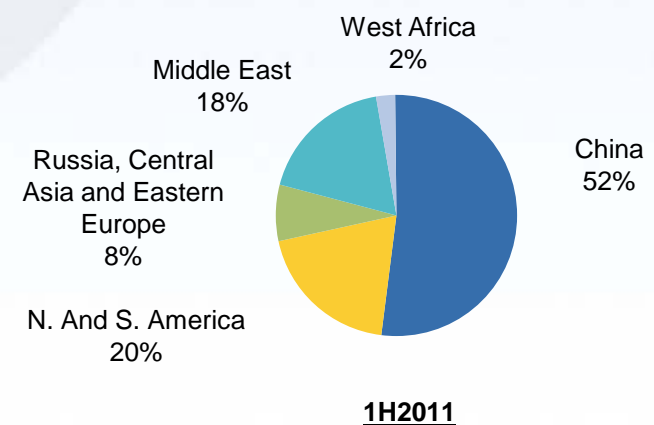
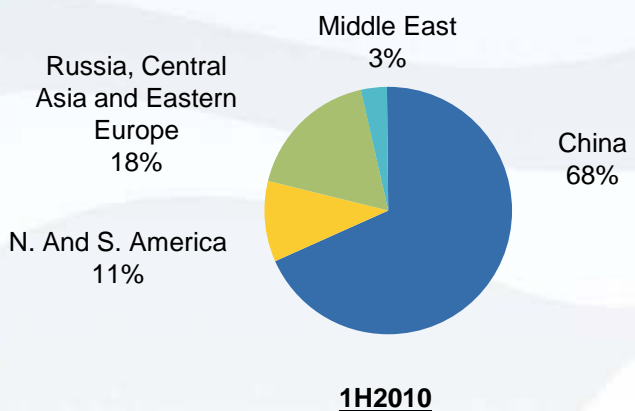
Revenue Breakdown



Revenue Breakdown by Product



Revenue Breakdown by Geography

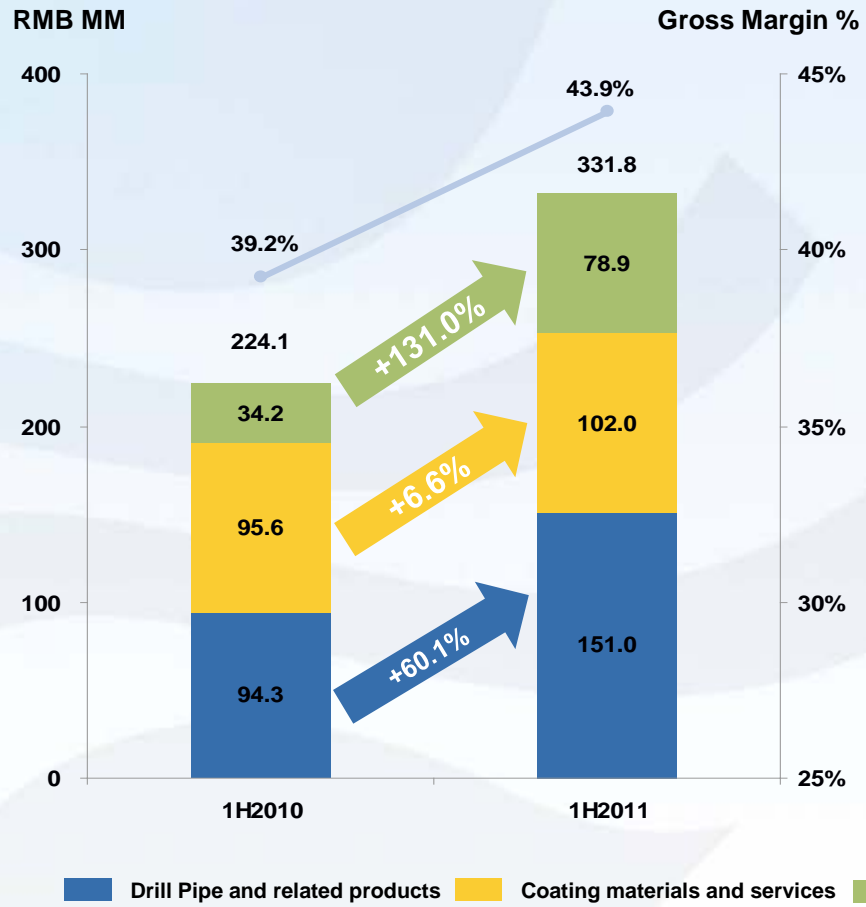


Gross Profit



Gross Profit Increased by 48.1% YoY

Gross Margin by Segment

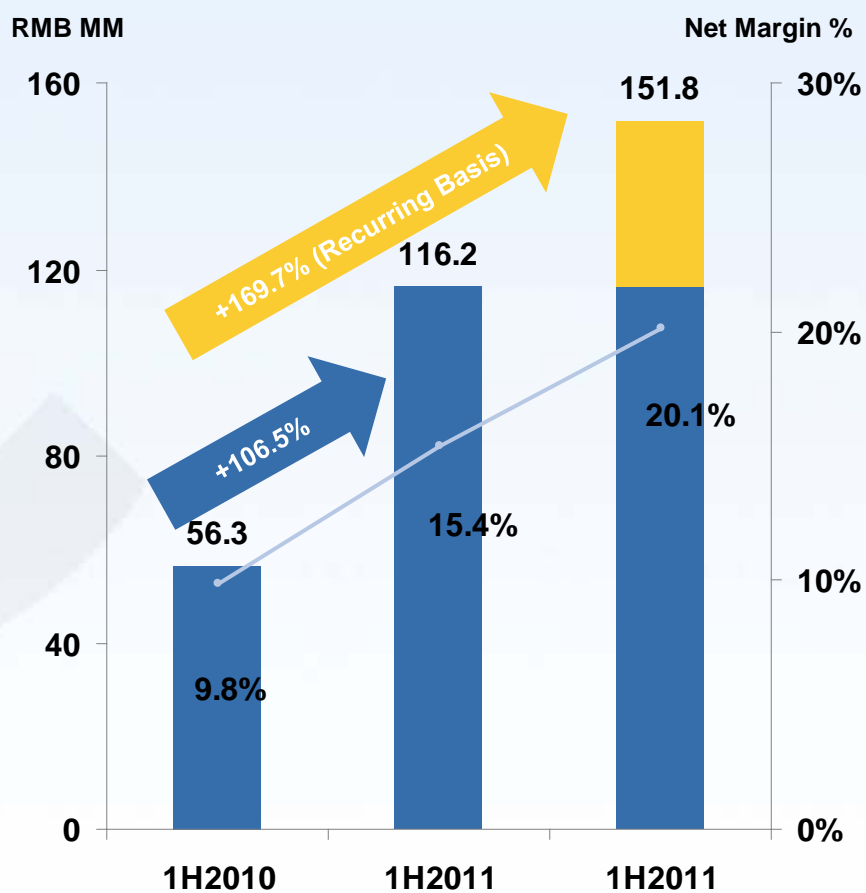
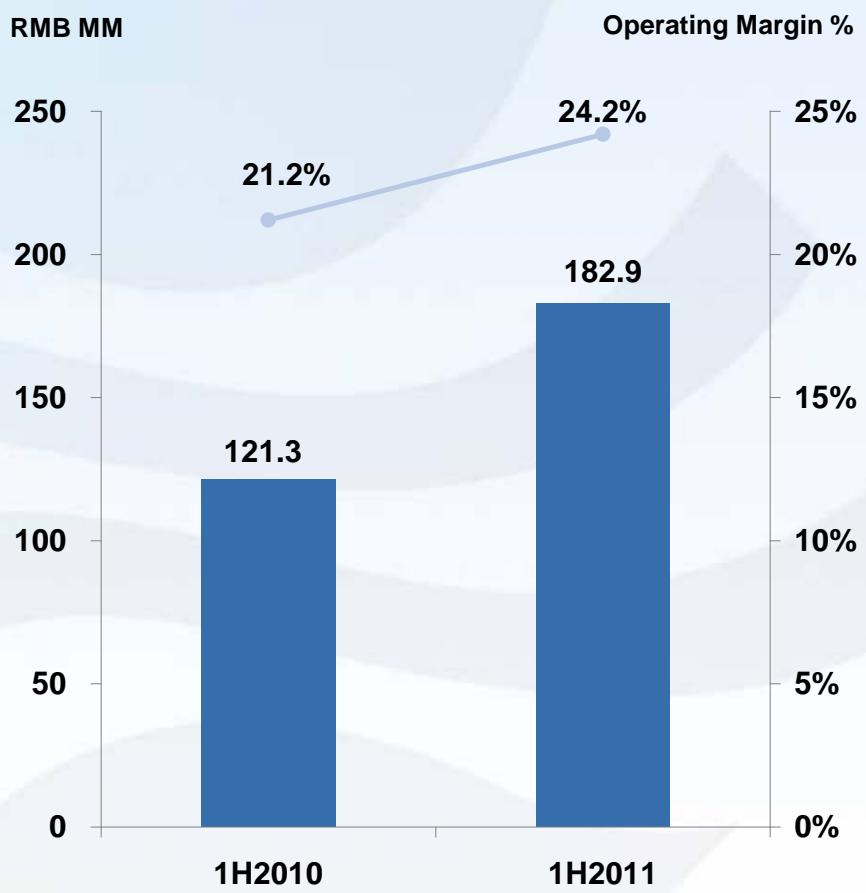


Operating and Net Profit



Operating Profit Increased by 50.8% YoY

Net Profit Increased by 106.5% YoY (1)



Note 1: Trued-up profit is calculated as net profit + IPO expenses of 23.1 million, + non-recurring interest expenses of 12.5 million paid for bridge loan and Series A preferred shares own by UMW

Capital Structure and Return



Capital Structure

RMB MM	2010YE	1H2011
Current Assets	1,845	1,703
Total Assets	2,768	2,801
Short-Term Debt	803	441
Long-Term Debt	1.2	-
Total Liabilities	1,863	948
Shareholders' Equity	683	1,692
Minority Interests	223	161
Total Equity	906	1,853

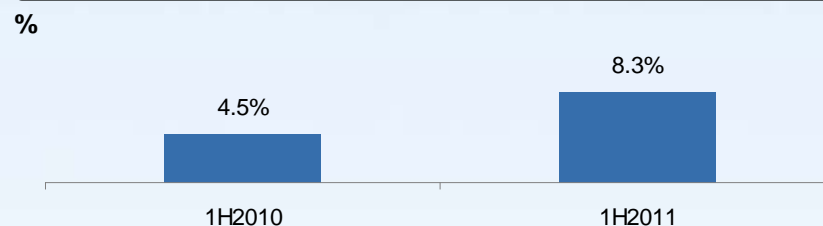
Note:

1: Annualized net income divided by average total asset at the beginning and the end of the period, average asset of 2010 is calculated based on beginning and end of the year

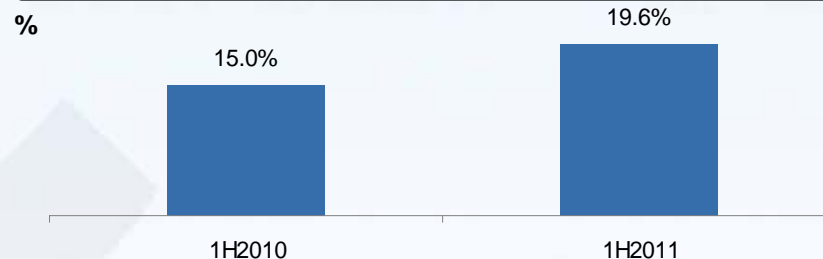
2: Annualized net income divided by average shareholders' equity at the beginning and the end of the period, average equity of 2010 is calculated based on beginning and end of the year

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

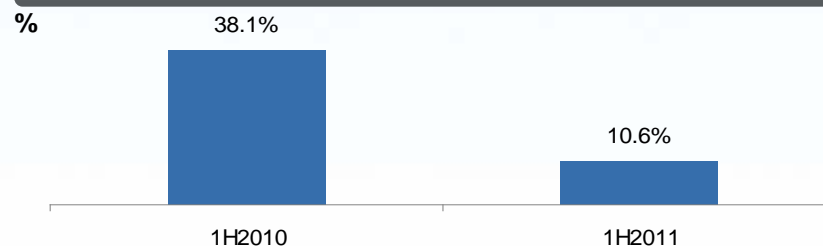
Average Return on Assets ⁽¹⁾



Average Return on Equity ⁽²⁾



Gearing Ratio: Net Debt/Total Cap ⁽³⁾

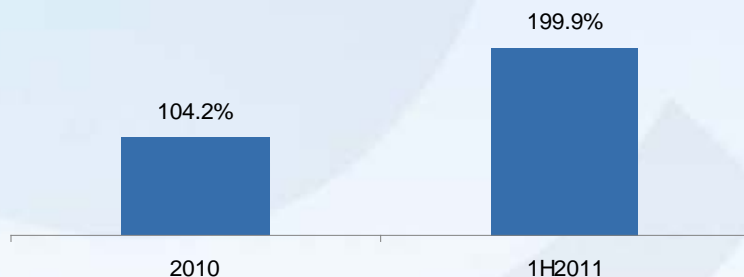


Liquidity and Turnover Days



Current Ratio

%



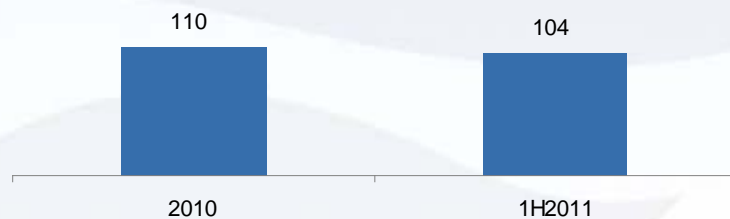
Average Inventory Days⁽¹⁾

Days



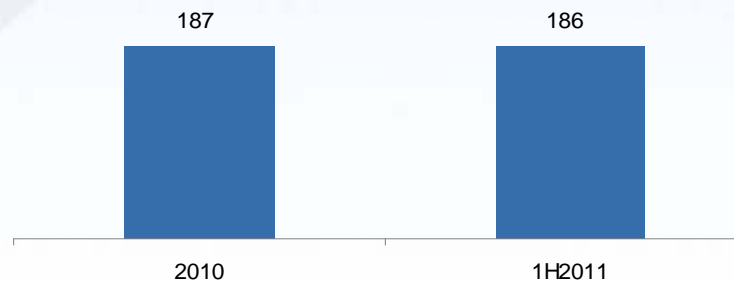
Average Trade Payable Days⁽²⁾

Days



Average Trade Receivable Days⁽³⁾

Days



- Note:**
1: Average Inventory days = number of days in this period * average inventory in this period / cost of sales of this period
2: Average trade payables days = number of days in this period * average net trade payables / cost of sales of this period
3: Average trade receivable days = number of days in this period * average net trade receivable s/ revenue of this period



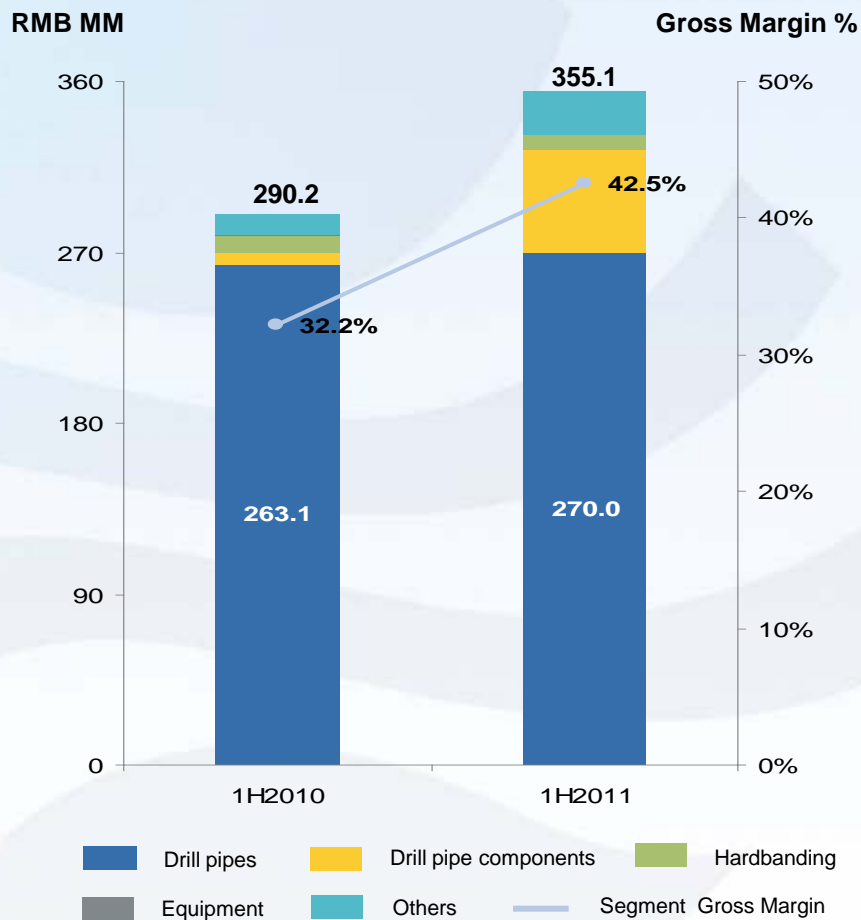
II. Business Review & Outlook

Drill Pipe and Related Products



Segment Revenue: +22.4% YoY

Drill Pipe Analysis



	2010 1H	2011 1H	Change
Annual capacity (Ton)	40,600	40,600	0.0%
Sales Volume (Ton)	10,106	10,193	0.9%
Domestic	6,813	4,629	-32.1%
International	3,293	5,564	69.0%
ASP (RMB/Ton)	26,036	26,484	1.7%
Domestic	26,061	27,196	4.4%
International	25,984	25,892	-0.4%
Revenue (RMB MM)	263.1	270.0	2.6%
Domestic	177.6	125.9	-29.1%
International	85.6	144.1	68.4%



New Products and Technologies

- ❖ **HL- V150 high strength drill pipe**
 - ❖ Specialised in deep and ultra-deep oil and gas drilling
 - ❖ High density and high torque capacity
- ❖ **Double box tool joint drill pipe**
 - ❖ Firstly specially designed for special requirements of Jiangsu Oilfield, and has been used in various oilfields
 - ❖ Effectively reduce the workload of the platform operation, thus improve the efficiency of drilling and tripping
- ❖ **7 1/2" big size drill pipe for HDD (Horizontal Directional Drilling) application**
 - ❖ Boost a high torque resistance and high drilling efficiency
 - ❖ A pioneer in production and application in China's HDD



New Products and Technologies (Cont')

Drill pipe for shale gas exploration

- ❖ Made bulk sales of double-shoulder drill pipes designed for shale gas exploration
- ❖ Modified and upgraded its double shoulder drill pipe to adapt to the requirement for shale gas exploration

Low temperature drill pipe

- ❖ Targets at high latitude wells
- ❖ Tolerance to temperature is 15-30°C lower than API drill pipes
- ❖ Fulfils the need of domestic market on low temperature equipment, and the first consignment of this product has recently been exported to Russia already

High torque-resistant/ super torque-resistant drill pipe

- ❖ Ideal for deep and ultra-deep wells, with a 20-80% higher torque resistance, which raises the efficiency of drilling
- ❖ The HL high torque-resistance series has begun mass production and recorded total sales of more than \$100 million to date

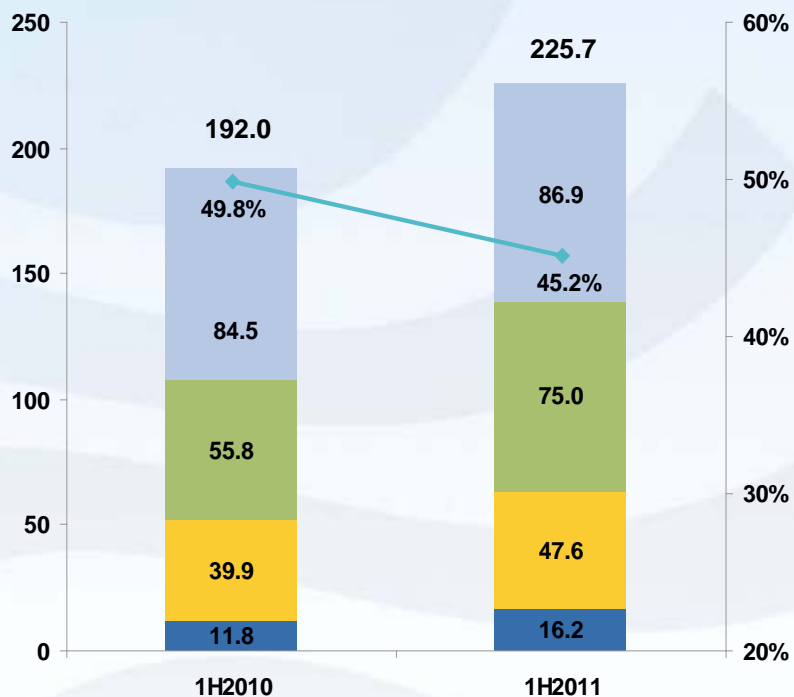
Coating Materials and Services



Segment Revenue: +17.6% YoY

Capacity Expansion Progress

RMB MM Gross Margin %

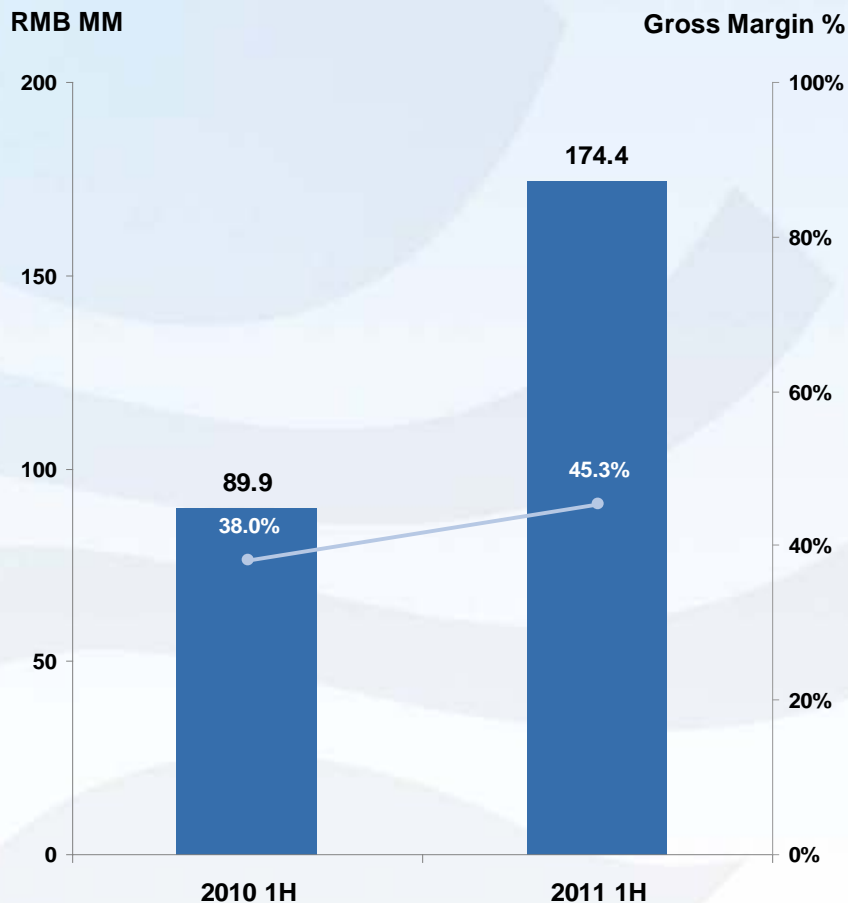


■ OCTG Coating Materials ■ OCTG Coating Services
■ Line Pipe Coating Materials ■ Line Pipe Coating Services
◆ Segment Gross Margin

	2010	2011	Change	Development
Line pipe coating materials (ton)	20,760	25,000	20.4%	3 new production lines in Shanghai started working in June
Line pipe coating services (000 sqm)	3,100	4,300	38.7%	Taicang plant started production in June Expanded existing capacity in Shanghai
OCTG coating services (000 m)	2,150	2,600	20.9%	Expanded existing capacity in Shanghai



Segment Revenue: +94.0% YoY



Order Backlog



Service Contracts

- ❖ 5 land rigs, 1 workover rig and 1 oil pump working on long term contracts
- ❖ Confirmed contract value totaled at ~US\$20.2MM in the second half of 2011
- ❖ Potentially, 2 more land rigs to be engaged in contracts in the second half



Trading Contracts

- ❖ Confirmed trading contracts in the second half of 2011 totaled at US\$11.4 million
- ❖ More potential contracts to be confirmed

Use of IPO Proceeds



Gross Proceeds of HK\$1.04 Bn, Net Proceeds of HK954MM

HK MM	Planned at IPO	%	Used as 1H 2011	Remainder
Capacity Expansion and Upgrade				
- Coating materials and service	229	24%	134	95
- Oilfield service	224	23%	165	59
- Drill pipe	95	10%	89	6
Repayment of outstanding balances due to controlling shareholder	189	20%	189	0
Repayment of bank borrowings	165	17%	165	0
Working capital and general corporate purposes	52	5%	52	0
Total	954	100%	794	160



Market demand is expected to be stronger for the rest of the year

- ❖ Adapting to the market condition, upgrade and expand production capacity, focus on R&D of high end products and widen products application
- ❖ Further expand international markets and recruit more quality customers
- ❖ Actively look for acquisition opportunities to further integrate vertically along the value chain

• Vertical integration: actively look for acquisition opportunities along the value chain to reduce costs and to provide more comprehensive products and services

• Production: continue to focus on R&D and marketing of high-end products

• Market: further expand international markets, in particular, Middle East and South America

• Capacity expansion: continue to build OCTG coating service plants in Sichuan, Russia and Canada (expected to start production in next year)

• Widen application: continue the R&D on high end coating materials and potentially enter offshore transmission pipes and refinery sectors

• Capacity expansion: purchase or rent two more drilling rigs

• Market: continue utilize oilfield service platform to win tubing & casing trading contracts

Raw Materials

Drill Pipe and Related Products

Coating Materials and Services

Oilfield Services

Future Plans and Strategies



Hilong's long-term objective is to become a leading integrated global oilfield equipment and service provider focusing on high-end products and services

1 Continue to focus on higher-end products in existing product categories

2 Further expand into drilling and other oilfield services areas

3 Solidify leadership in the PRC market through capacity upgrades and vertical integration

4 Expand international footprint at strategic locations

5 Actively seek strategic acquisitions and alliances



Appendix. Company Highlights

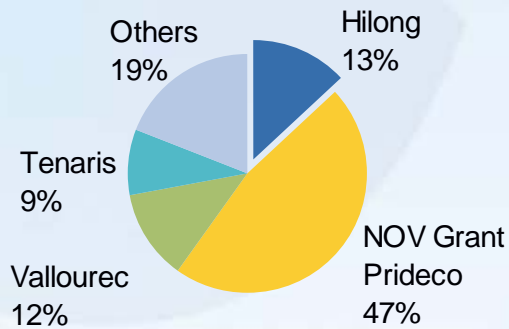
Company Highlights



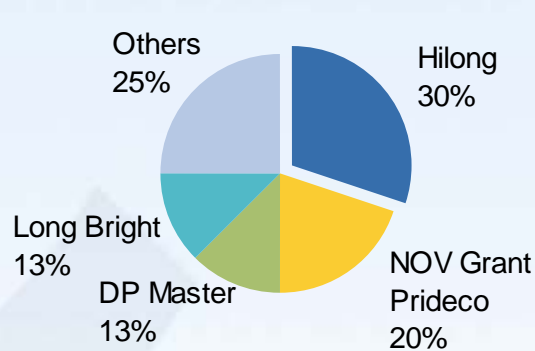
1 Market Leadership in Key Oilfield Equipment Products and Services



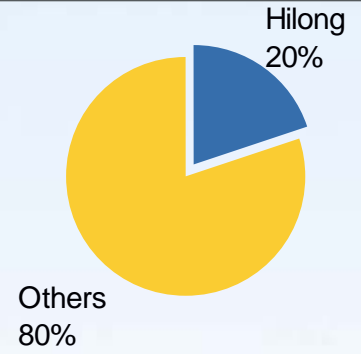
World Leading Drill Pipe Producer



Global Drill Pipe Market

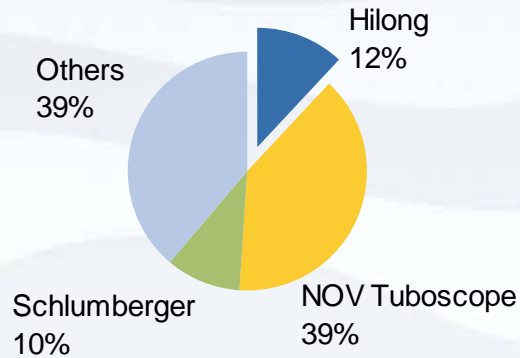


Chinese Drill Pipe Market

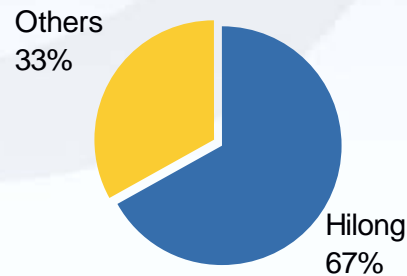


Russian Drill Pipe Market

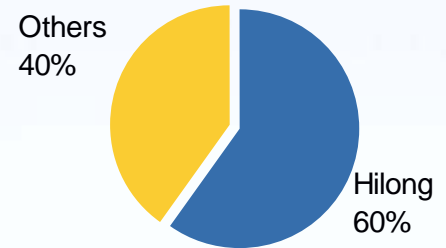
World Leading OCTG and Line Pipe Coating Materials and Services Provider



Global OCTG Coating Materials and Services Market



Chinese OCTG Coating Materials and Services Market



Chinese Line Pipe Coating Materials Market

Source: Spears & Associates, market shares are calculated based on 2009 sales

2 Established Relationships with Major International Oil and Gas Companies Supported by Proven Product Quality



Established Relationships with Major International Oil and Gas Companies

Domestic Customers

Hilong is the largest drill pipe supplier to PetroChina and Sinopec, which combine to account for over 90% of the Chinese drill pipe market

International Customers

Selected Quality Assurance and Technical Qualifications Obtained by Hilong

Qualification	Awarded/Accepted by	Products Covered
Fearnley Procter NS-1	International majors such as Shell, Weatherford, Schlumberger	Drill pipes, hardbanding products, coating services
American Petroleum Institute (API)	Standard requirement	Drill pipes
www.energyahead.com membership	CNPC	Drill pipes, hardbanding products, coating materials and services
ISO9001:2000	DNV	Drill pipes, hardbanding products, coating materials and services



- As the principal raw material in manufacturing drill pipes, steel pipes are increasingly supplied from Nantong Hilong Steel Pipe Co., Ltd., allowing Hilong to secure raw material supplies

- Hilong develops and manufactures in-house API drill pipes and non-API products such as high torsion-resistant, sour service drill pipes, as well as related products with high margins, such as hardbanding materials. This allows Hilong to guarantee product quality and reduce costs

- Hilong has developed a number of proprietary coating materials formulas, enabling Hilong have greater control over raw materials supply and costs
- Hilong also provides coating services, with a focus on OCTG coating

- As drill pipes account for approximately 25-30% of drilling contractors' capital outlay, Hilong is able to capitalize on its strength in drill pipe production and control drilling costs
- Expanding oilfield services business will also help to develop Hilong's drill pipe products

Steel pipes

Drill pipe and related products

Coating materials

Oilfield services

- ▶ Ability to deliver a wide spectrum of drill pipes that will have incorporated coating and hardbanding based on specific requirements from our customer
- ▶ More attractive pricing and greater ability to maintain and improve our profit margin by capturing value along the value chain
- ▶ Better control over the quality of our products through in-house manufacturing
- ▶ Greater ability to expedite and prioritize delivery through management of production schedules
- ▶ Greater ability to provide “one-stop shop” after-sales services to customers

4

Innovation-Driven Research and Development Capabilities










Leading Research Institute in China

- ▶ Dedicated research and development team, with 61 members as of December 31, 2010, has developed a series of proprietary technology and drill pipe products based on 37 patents as well as a full suite of chemical formulas for coating materials
- ▶ Hilong's Shanghai Hilong Tubular Goods Research Institute is primarily responsible for the development of drill pipe products, hardbanding materials, coating materials and techniques. Its approximately 40 researchers include academics from the Chinese Academy of Engineering, doctors, senior engineers and industry experts



Selected Successfully Commercialized In-house Developed Products and Technologies

Photo	Product
	Sour service drill pipe
	Double-shoulder tool joint
	High torsion-resistant tool joint
	Low temperature drill pipe
	Hydrogen sulfide and carbon dioxide resistant coating
	High solid content, acid & alkali proof, abrasion resistance thick film coating material
	High-strength fusion epoxy powder coating technology



UMW

Other than providing financing as a pre-IPO investor, UMW will promote the use of Hilong's products and services in UMW's contract oilfields, and potentially support Hilong's expansion into South East Asian markets

Proven track record

Since founding the company in 2001, management has transformed Hilong from a simple coating plant to an integrated oilfield equipment and services provider with a leadership position



Dynamic

Flexibility as a non-state owned enterprise, simple shareholding structure with effective options scheme to well incentivize management

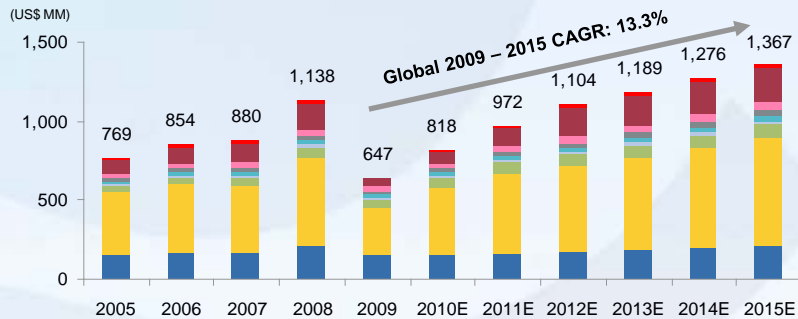
Experienced and technically strong

Management team with strong technical background, with an average of 18 years of experience in the relevant fields

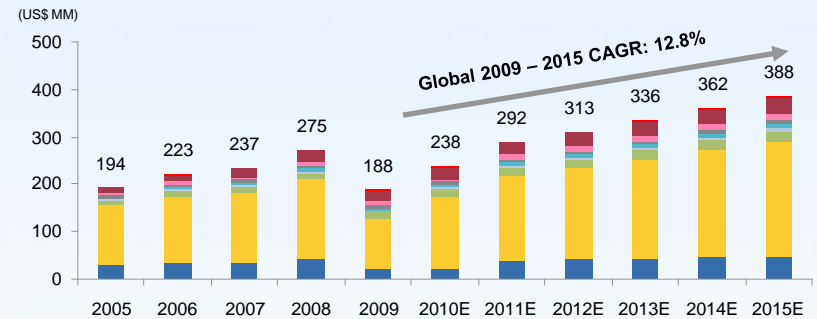
Strong Underlying Industry Fundamentals



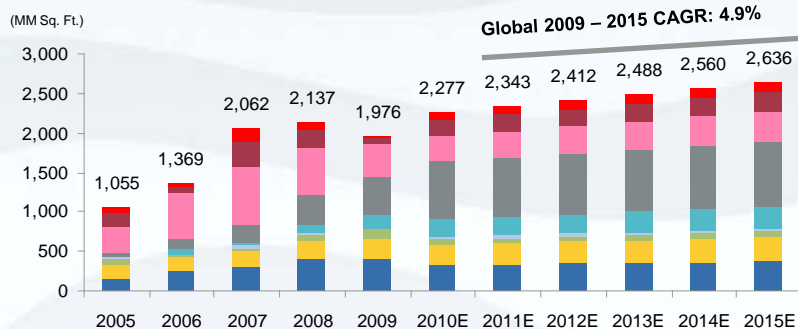
Global Drill Pipe Market



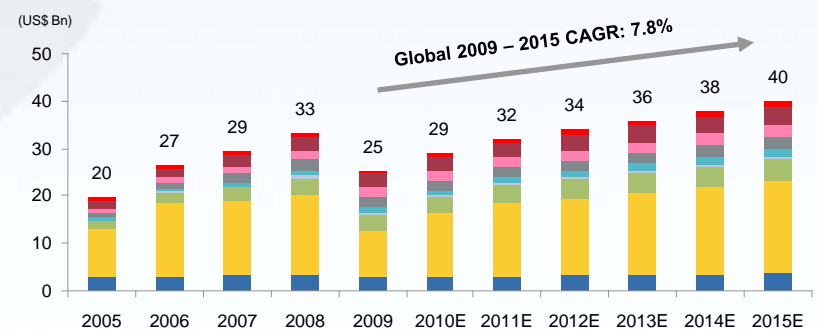
Global OCTG Coating Market



Global Line Pipe Coating Demand



Global Onshore Contract Drilling Market



■ China
 ■ North America
 ■ South America
 ■ Europe
 ■ Africa

■ Middle East
 ■ Asia Pacific (excl. China)
 ■ Russia
 ■ Central Asia

Source: Spears & Associates