Hilong Holding Limited
海隆控股有限公司*

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

- The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 21 April 2011.
- Revenue was approximately RMB755.1 million, representing an increase of approximately 32.0% as compared with the same period in 2010.
- Profit before income tax was approximately RMB151.3 million, representing an increase of approximately 48.0% as compared with the same period in 2010.
- Profit attributable to equity owners of the Company was approximately RMB116.2 million, representing an increase of approximately 106.5% as compared with the same period in 2010.
- Gross profit margin was 43.9%, representing an increase of 4.7% as compared with the same period in 2010.
- Basic earnings per share was approximately RMB0.088, representing an increase of 78.9% as compared with the same period in 2010.
- The Board resolved not to declare any interim dividend for the six months ended 30 June 2011.

* *For identification purposes only*

The board of directors (the "**Directors**") (the "**Board**") of Hilong Holding Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") prepared according to the Hong Kong Financial Reporting Standards ("HKFRS") for the six months ended 30 June 2011 (the "**Interim Period**") as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2011

	Notes	**(Unaudited) Six months ended 30 June 2011** *RMB'000*	2010 *RMB'000*
Revenue	*4(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		**(2,307)**	291
Operating profit		**182,945**	121,302
Finance income		**1,478**	280
Finance costs		**(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	*5*	**(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)	*6*	**0.0880**	0.0492
Dividends	*7*	**51,891**	10,000

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

	(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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
As at 30 June 2011

	Note	**(Unaudited) 30 June 2011** *RMB'000*	(Audited) 31 December 2010 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**864,641**	733,292
Lease prepayments		**87,055**	55,788
Intangible assets		**13,490**	11,780
Investments in associates		**78,123**	78,811
Investments in jointly controlled entities		**9,029**	6,279
Deferred income tax assets		**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		**134,315**	811
Other reserves		**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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (continued)
As at 30 June 2011

	Note	**(Unaudited) 30 June 2011** *RMB'000*	(Audited) 31 December 2010 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	1,200
Deferred income tax liabilities		**81,712**	77,061
Deferred revenue		**14,063**	13,650
		95,775	91,911
Current liabilities			
Deferred revenue		**275**	405
Trade and other payables	*9*	**387,505**	953,422
Current income tax liabilities		**22,904**	13,592
Derivative financial instruments		**–**	133
Borrowings		**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		–	6,044	–	–	6,044	–	6,044
Dividends declared and paid to the then equity owner	7	–	–	(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		33,576	783,905	–	–	817,481	–	817,481
Preferred shares converted into ordinary shares		4	170,128	–	–	170,132	–	170,132
Capitalization issue		99,924	(99,924)	–	–	–	–	–
Capital increase to subsidiaries by their then equity owners		–	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		–	(9,529)	–	–	(9,529)	–	(9,529)
Pre-IPO share option plan		–	4,550	–	–	4,550	–	4,550
Dividends in respect of 2010	7	–	–	(51,891)	–	(51,891)	–	(51,891)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(5,453)	(5,453)
Transactions with non-controlling interests			(38,750)			(38,750)	(69,678)	(108,428)
As at 30 June 2011		134,315	733,327	840,460	(16,483)	1,691,619	161,462	1,853,081

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
For the six months ended 30 June 2011

	(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

Notes:

1 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").

2 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the Group's 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 emphasizes the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis 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.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the Hong Kong Institute of Certified Public Accountants, except for amendment to HKAS 34 "Interim financial reporting" as disclosed in note 2(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.

2 ACCOUNTING POLICIES (Continued)

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

3 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 information, 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.

4 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.

4 SEGMENT INFORMATION (continued)

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 information. These assets are allocated based on the operations of segment. Investments in associates and investments in jointly controlled entities are not considered to be segment assets but rather are managed by the treasury function.

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

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

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

- Coating materials production and coating service provision, including the production of coating materials for anticorrosive purpose and provision of coating services (the interior of most of the drilling pipes needs to be coated with anticorrosive chemicals); and

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 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

4 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**

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 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*
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**

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

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Business segment	Drill pipes and related products *RMB'000*	Coating materials and services *RMB'000*	Oilfield services *RMB'000*	Total *RMB'000*
	As at 31 December 2010 (Audited)			
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

(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 (the "PRC"), its home country, the Group produces and sells a broad range of drill pipes and related products, and provides coating materials and services. In Russia, Central Asia, East Europe 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	2010
	RMB'000	*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

4 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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) As at 30 June 2011	(Audited) As at 31 December 2010
	RMB'000	*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 month ended 30 June	
	2011	2010
	RMB'000	*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.

5 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 technology enterprises and enjoyed preferential 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).

6 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 convertible 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 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.

7 DIVIDENDS

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Dividend in respect of 2010	**51,891**	–
Dividend 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 any interim dividend in respect of the six months ended 30 June 2011.

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	**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	**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

9 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	**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

The aging analysis of the trade payables, including amounts due to related parties which were in trade 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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The following table sets forth the revenue of 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 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 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 period 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 RMB177.6million 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 in 2010 to RMB10,436 per tonne for the Interim Period 2011. 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 in 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 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 in 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, senior management and other employees on 1 January 2011 pursuant to the share option scheme of the Company as disclosed in 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 convertible preferred shares of the Company using effective interest method. Such Series A convertible 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	As at 31 December 2010
	RMB'000	*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 party 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 payable, accrued taxes other than income tax and dividends payable. The following table sets forth the components of trade and other payables outstanding as at the dates indicated.

	As at 30 June 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 dated 11 April 2011 (the "Prospectus")). The Company was successfully listed on the Main Board of the Stock Exchange on 21 April 2011. Net proceeds from the Global Offering were approximately HK$954 million. As at 30 June 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 *HKD in million*	Used in the Interim Period *HKD in million*	Residual balance as at 30 June 2011 *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 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.

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 convertible 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.

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	As at 31 December 2010
	RMB'000	*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.

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 date of listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing Date") and up to the date of this announcement, 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 formalised 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 (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 announcement, 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 RESULTS

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 results for the Interim Period before the results were sent to 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.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.hilonggroup.net).

The interim report for the Interim Period containing all the information required by the Listing Rules will be despatched to shareholders of the Company and become available on the same websites in due course.

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 announcement, the executive directors of the Company 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.