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Hilong Holding Limited
海隆控股有限公司*

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB929.7 million, representing an increase of approximately 22.0% as compared with the same period in 2011.
- Gross profit was approximately RMB371.5 million, representing an increase of approximately 10.4% as compared with the same period in 2011. Gross profit margin was approximately 40.0% for the six months ended 30 June 2012.
- Profit for the period was approximately RMB142.1 million, representing an increase of approximately 10.3% as compared with the same period in 2011.
- Profit attributable to equity owners of the Company was approximately RMB130.2 million, representing an increase of approximately 10.3% as compared with the same period in 2011.
- The Board resolved not to declare any interim dividend for the six months ended 30 June 2012.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Hilong Holding Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**" or "**Hilong**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRS**") for the six months ended 30 June 2012 (the "**Interim Period**") as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended 30 June 2012

		(Unaudited)	
		Six months ended 30 June	
	Note	**2012**	2011
		RMB'000	*RMB'000*
			(Restated)
Revenue	*4(a)*	**929,685**	761,920
Cost of sales		**(558,143)**	(425,436)
Gross profit		**371,542**	336,484
Selling and marketing expenses		**(44,560)**	(43,133)
Administrative expenses		**(125,051)**	(106,308)
Other losses – net		**(6,028)**	(2,307)
Operating profit		**195,903**	184,736
Finance income		**642**	1,487
Finance costs		**(35,460)**	(28,651)
Finance costs – net		**(34,818)**	(27,164)
Share of results of:			
– Associates		**845**	838
– Jointly controlled entities		**(2,572)**	(5,320)
Profit before income tax		**159,358**	153,090
Income tax expense	5	**(17,290)**	(24,235)
Profit for the period		**142,068**	128,855
Profit attributable to:			
Equity owners of the Company		**130,193**	118,035
Non-controlling interests		**11,875**	10,820
		142,068	128,855
Earnings per share from operations attributable to equity owners of the Company			
Basic and diluted earnings per share (in RMB)	6	**0.0818**	0.0893
Dividends	7	**–**	51,891

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Profit for the period	**142,068**	128,855
Other comprehensive income:		
Currency translation differences	**660**	(1,696)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary	**848**	(2,313)
Other comprehensive income/(loss) for the period, net of tax	**1,508**	(4,009)
Total comprehensive income for the period	**143,576**	124,846
Attributable to:		
Equity owners of the Company	**131,701**	114,026
Non-controlling interests	**11,875**	10,820
	143,576	124,846

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2012

	Note	(Unaudited) 30 June 2012 RMB'000	(Audited) 31 December 2011 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**1,285,200**	1,096,113
Lease prepayments		**86,057**	86,589
Intangible assets		**69,260**	69,397
Investments in associates		**52,812**	53,539
Investments in jointly controlled entities		**17,977**	5,143
Deferred income tax assets	*5*	**78,111**	60,832
Other long-term assets		**10,445**	553
		1,599,862	1,372,166
Current assets			
Inventories		**596,090**	509,510
Trade and other receivables	*8*	**1,325,026**	1,313,152
Restricted cash		**79,456**	56,801
Cash and cash equivalents		**248,103**	325,500
		2,248,675	2,204,963
Total assets		**3,848,537**	3,577,129
EQUITY			
Capital and reserves attributable to equity owners of the Company			
Share capital		**133,613**	133,927
Other reserves		**765,697**	764,232
Retained earnings			
– Proposed final dividend		**–**	89,017
– Others		**1,036,502**	906,623
Currency translation differences		**(32,142)**	(33,650)
		1,903,670	1,860,149
Non-controlling interests		**188,639**	178,473
Total equity		**2,092,309**	2,038,622

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (continued)
As at 30 June 2012

	Note	**(Unaudited) 30 June 2012** ***RMB'000***	(Audited) 31 December 2011 *RMB'000* (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings		**298,141**	178,741
Deferred income tax liabilities	*5*	**89,297**	86,951
Derivative financial instruments		**15,945**	12,810
Deferred revenue		**19,000**	20,250
		422,383	298,752
Current liabilities			
Deferred revenue		**400**	400
Trade and other payables	*9*	**740,849**	624,860
Current income tax liabilities		**32,322**	31,539
Borrowings		**560,274**	582,956
		1,333,845	1,239,755
Total liabilities		**1,756,228**	1,538,507
Total equity and liabilities		**3,848,537**	3,577,129
Net current assets		**914,830**	965,208
Total assets less current liabilities		**2,514,692**	2,337,374

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

		(Unaudited)						
		Capital and reserves attributable to equity owners						
	Note	Share capital	Other reserve	Retained earnings	Cumulative translation differences	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2011 as previously reported		811	(82,328)	776,116	(11,803)	682,796	222,813	905,609
Acquisition of a subsidiary under common control	10	–	7,033	(22,824)	343	(15,448)	–	(15,448)
As at 1 January 2011 as restated		811	(75,295)	753,292	(11,460)	667,348	222,813	890,161
Comprehensive income								
Profit for the period		–	–	118,035	–	118,035	10,820	128,855
Other comprehensive income								
Currency translation differences		–	–	–	(1,696)	(1,696)	–	(1,696)
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		–	–	118,035	(4,009)	114,026	10,820	124,846
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
Series A 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 owner (restated)		–	19,767	–	–	19,767	–	19,767
Capital increase to subsidiaries by non-controlling interests		–	–	–	–	–	2,960	2,960
Consideration paid to the then equity owner for acquisition of a subsidiary 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)
Total transaction with owners		133,504	830,147	(51,891)	–	911,760	(72,171)	839,589
As at 30 June 2011		134,315	754,852	819,436	(15,469)	1,693,134	161,462	1,854,596

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2012

		(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 2012 as previously reported		133,927	742,707	1,018,135	(34,625)	1,860,144	178,473	2,038,617
Acquisition of a subsidiary under common control	*10*	–	21,525	(22,495)	975	5	–	5
As at 1 January 2012 as restated		133,927	764,232	995,640	(33,650)	1,860,149	178,473	2,038,622
Comprehensive income								
Profit for the period		–	–	130,193	–	130,193	11,875	142,068
Other comprehensive income								
Currency translation differences		–	–	–	660	660	–	660
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		–	–	–	848	848	–	848
Total comprehensive income for the period		–	–	130,193	1,508	131,701	11,875	143,576
Transactions with owners								
Share repurchase								
– repurchases of shares		(314)	–	–	–	(314)	–	(314)
– premium on repurchase of shares		–	(3,915)	–	–	(3,915)	–	(3,915)
– transfer		–	314	(314)	–	–	–	–
Consideration paid to the then equity owner for acquisition of a subsidiary under common control		–	(380)	–	–	(380)	–	(380)
Pre-IPO share option plan		–	5,446	–	–	5,446	–	5,446
Dividends in respect of 2011	7	–	–	(89,017)	–	(89,017)	–	(89,017)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(1,709)	(1,709)
Total transaction with owners		(314)	1,465	(89,331)	–	(88,180)	(1,709)	(89,889)
As at 30 June 2012		133,613	765,697	1,036,502	(32,142)	1,903,670	188,639	2,092,309

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2012

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Cash flow from operating activities		
Cash generated from/(used in) operations	**162,771**	(540)
Interest paid	**(20,507)**	(22,061)
Income tax paid	**(31,440)**	(17,130)
Net cash generated from/(used in) operating activities	**110,824**	(39,731)
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	**20,003**	105
Purchases of property, plant and equipment	**(161,382)**	(173,467)
Purchases of lease prepayments	**–**	(31,800)
Purchases of intangible assets	**(27)**	(1,900)
Transaction with non-controlling interests	**–**	(101,756)
Investment in jointly controlled entities	**(15,406)**	(11,937)
Net cash used in investing activities	**(156,812)**	(320,755)
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	**–**	19,767
Net cash outflow arising from consideration paid to the then equity owner for acquisition of subsidiaries under common control	**(380)**	(249,528)
Proceeds from borrowings	**249,365**	123,000
Repayments of borrowings	**(167,986)**	(316,284)
Dividends paid to the non-controlling interests of the subsidiaries	**(1,798)**	(3,287)
Dividends	**(85,863)**	(51,891)
Repurchase of shares	**(2,385)**	–
Net cash used in security deposit for bank borrowings	**(22,812)**	–
Net cash (used in)/generated from financing activities	**(31,859)**	339,258
Net decrease in cash and cash equivalents	**(77,847)**	(21,228)
Exchange gains/(losses) on cash and cash equivalents	**450**	(947)
Cash and cash equivalents at beginning of the period	**325,500**	256,802
Cash and cash equivalents at end of the period	**248,103**	234,627

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2012 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 2011, 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 annual financial statements for the year ended 31 December 2011, 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) Amended standard adopted by the Group

The following amendment to standard is mandatory for the first time for the financial year beginning 1 January 2012.

- HKFRS 7 (Amendment) "Disclosures – Transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The change in accounting policy only results in additional disclosures.

(b) Amendments and interpretations to existing standards effective in 2012 but not relevant to the Group

- HKFRS 1 (Amendment), "Severe hyperinflation and removal of fixed dates for first-time adopters", effective for annual period beginning on or after 1 July 2011.

- HKFRS 12 (Amendment), "Deferred tax: Recovery of underlying assets", effective for annual periods beginning on or after 1 January 2012.

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 2012 and have not been early adopted by the Group

- HKAS 1 (Amendment) "Presentation of financial statements", effective for the accounting period beginning on or after 1 July 2012.

- HKFRS 10 "Consolidated financial statements", effective for the accounting period beginning on or after 1 January 2013.

- HKAS 27 (revised 2011) "Separate financial statements", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 11 "Joint arrangements", effective for the accounting period beginning on or after 1 January 2013.

- HKAS 28 (revised 2011) "Associates and joint ventures", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 13 "Fair value measurement", effective for the accounting period beginning on or after 1 January 2013.

- HKAS 19 (Amendment) "Employee benefits", effective for the accounting period beginning on or after 1 January 2013.

- HKFRS 7 (Amendment) "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities", effective for the accounting period beginning on or after 1 January 2013.

- HK(IFRIC) – Int 20 "Stripping costs in the production phase of a surface mine", effective for the accounting period beginning on or after 1 January 2013.

- The fourth 2011 annual improvements project, effective for the accounting period beginning on or after 1 January 2013.

- HKAS 32 (Amendment) "Financial instruments: Presentation – Offsetting financial assets and financial liabilities", effective for the accounting period beginning on or after 1 January 2014.

- HKFRS 9 "Financial instruments", effective for the accounting period beginning on or after 1 January 2015.

- HKFRS 7 and HKFRS 9 (Amendments) "Mandatory effective date and transition disclosures", effective for the accounting period beginning on or after 1 January 2015.

There are no other HKFRSs or HKASs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2011.

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.

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

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

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

- Oil and gas equipment production, including the production of drilling pipes which are used in drilling exploration or production wells for oil and gas producers;
- Coating materials production and coating services 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 2012 and 2011 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Drill pipes and related products	**412,942**	361,908
Coating materials and services	**273,203**	225,660
Oilfield services	**243,540**	174,352
	929,685	761,920

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 2012 is as follows:

	Six months ended 30 June 2012 (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	**444,939**	**331,047**	**243,540**	**1,019,526**
Inter-segment sales	**(31,997)**	**(57,844)**	**–**	**(89,841)**
Revenue from external customers	**412,942**	**273,203**	**243,540**	**929,685**
Results				
Segment gross profit	**153,993**	**120,446**	**97,103**	**371,542**
Segment profit	**70,462**	**75,547**	**49,894**	**195,903**
Finance income				**642**
Finance costs				**(35,460)**
Share of profits of associates				**845**
Share of losses of jointly controlled entities				**(2,572)**
Profit before income tax				**159,358**
Other information				
Depreciation of property, plant and equipment	**17,996**	**8,010**	**26,859**	**52,865**
Amortization of lease prepayments	**444**	**88**	**–**	**532**
Amortization of intangible assets	**130**	**34**	**–**	**164**
Capital expenditure	**32,390**	**9,069**	**229,429**	**270,888**

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 30 June 2012 (Unaudited)			
Segment assets	**1,908,810**	**795,745**	**1,073,193**	**3,777,748**
Investments in associates				**52,812**
Investments in jointly controlled entities				**17,977**
Total assets				**3,848,537**
Total liabilities	**1,188,515**	**344,703**	**223,010**	**1,756,228**

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

Business segment	Drill pipes and related products *RMB'000*	Coating materials and services *RMB'000*	Oilfield services *RMB'000*	Total *RMB'000*
	Six months ended 30 June 2011 (Unaudited, restated)			
Revenue				
Segment revenue	389,140	243,171	174,352	806,663
Inter-segment sales	(27,232)	(17,511)	–	(44,743)
Revenue from external customers	361,908	225,660	174,352	761,920
Results				
Segment gross profit	155,632	101,948	78,904	336,484
Segment profit	89,890	60,965	33,881	184,736
Finance income				1,487
Finance costs				(28,651)
Share of profits of associates				838
Share of losses of jointly controlled entities				(5,320)
Profit before income tax				153,090
Other information				
Depreciation of property, plant and equipment	19,206	5,501	10,320	35,027
Amortization of lease prepayments	444	89	–	533
Amortization of intangible assets	107	83	–	190
Capital expenditure	61,427	9,061	136,679	207,167

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 31 December 2011 (Audited, restated)			
Business segment	Drill pipes and related products *RMB'000*	Coating materials and services *RMB'000*	Oilfield services *RMB'000*	Total *RMB'000*
Segment assets	1,901,650	783,370	833,427	3,518,447
Investments in associates				53,539
Investments in jointly controlled entities				5,143
Total assets				3,577,129
Total liabilities	1,028,550	336,162	173,795	1,538,507

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2012 *RMB'000*	2011 *RMB'000* (Restated)
The PRC	**515,558**	390,009
North and South America	**198,505**	155,585
Russia, Central Asia and East Europe	**101,734**	58,990
West Africa	**65,026**	18,501
Middle East	**48,862**	138,835
	929,685	761,920

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)	(Audited)
	Carrying amount of segment assets	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
		(Restated)
The PRC	**745,511**	733,964
North and South America	**294,686**	155,495
Middle East	**209,581**	236,871
West Africa	**141,164**	72,435
Russia, Central Asia and East Europe	**49,575**	53,334
	1,440,517	1,252,099

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

	(Unaudited)	
	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
The PRC	**47,866**	115,166
North and South America	**147,686**	2,596
West Africa	**73,113**	74,347
Middle East	**1,706**	4,214
Russia, Central Asia and East Europe	**517**	10,844
	270,888	207,167

For the six months ended 30 June 2012 and 2011, 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	
	2012	2011
	RMB'000	*RMB'000*
Current income tax	**32,223**	26,442
Deferred income tax	**(14,933)**	(2,207)
Income tax expense	**17,290**	24,235

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

Enterprises incorporated in the 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 2012 and 2011.

Enterprises incorporated in other places are subject to income tax rates of 15% to 33% prevailing in the places in which the Group operated for the six months ended 30 June 2012 and 2011.

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

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

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

Pursuant to the Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared and distributed to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. Deferred income tax liabilities of RMB3,638,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries for the six months ended 30 June 2012. Such amounts are permanently reinvested. Unremitted earnings totalled RMB198,980,000 at 30 June 2012 (31 December 2011: RMB162,600,000).

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, convertible bonds and Series A preferred shares.

The weighted average number of ordinary shares deemed to be outstanding for the six months ended 30 June 2011 is determined on the assumption that the subdivision of number of shares by a multiple of 1,200 had been effected since 1 January 2011.

	(Unaudited) Six months ended 30 June	
	2012	2011 (Restated)
Basic and diluted profit attributable to equity owners of the Company (RMB'000)	**130,193**	118,035
Basic and diluted weighted average number of ordinary shares outstanding (thousand)	**1,591,510**	1,321,309
Basic and diluted earnings per share (RMB)	**0.0818**	0.0893

As at 30 June 2012, there were 45,000,000 share options outstanding and convertible bonds which can be converted into 97,188,000 ordinary shares that could potentially have a dilutive impact in the future but were anti-dilutive in the six months ended 30 June 2012 (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).

7 DIVIDENDS

The dividend in respect of 2011 of HK$0.0690 (equivalent to RMB0.0559) per share, amounting to a total dividend of HK$109,802,000 (equivalent to RMB89,017,000) was approved at the Company's annual general meeting on 11 May 2012. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2012.

The dividend in respect of 2010 of HK$0.0390 (equivalent to RMB0.0324) per share, amounting to a total dividend of HK$62,400,000 (equivalent to RMB51,891,000) 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 2012.

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2012 *RMB'000*	(Audited) 31 December 2011 *RMB'000* (Restated)
Bills receivable	**22,398**	31,878
Trade receivables (a)		
– Due from third parties	**1,055,883**	968,580
– Due from related parties	**17,204**	59,350
Trade receivables – gross	**1,073,087**	1,027,930
Less: Provision for impairment of receivables	**(14,724)**	(11,033)
Trade receivables – net	**1,058,363**	1,016,897
Dividends receivable	**1,572**	–
Other receivables	**118,874**	99,863
Prepayments	**123,819**	164,514
Trade and other receivables	**1,325,026**	1,313,152

(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 2012 and 31 December 2011 was as follows:

	(Unaudited) 30 June 2012 *RMB'000*	(Audited) 31 December 2011 *RMB'000* (Restated)
Trade receivables, gross		
– Within 90 days	**669,721**	602,677
– Over 90 days and within 180 days	**81,557**	213,645
– Over 180 days and within 360 days	**212,511**	109,046
– Over 360 days and within 720 days	**72,940**	75,107
– Over 720 days	**36,358**	27,455
	1,073,087	1,027,930

As at 30 June 2012, trade receivables of RMB11,179,000 (31 December 2011: RMB10,694,000) were secured for the Group's borrowing.

9 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2012 *RMB'000*	(Audited) 31 December 2011 *RMB'000* (Restated)
Bills payable	**136,538**	103,195
Trade payables:		
– Due to third parties	**399,728**	312,406
– Due to related parties	**18,240**	10,135
Other payables:		
– Due to third parties	**45,840**	44,331
– Due to related parties	**12,068**	33,900
Staff salaries and welfare payables	**26,075**	32,328
Advance from customers	**55,291**	43,030
Interest payables	**1,731**	1,764
Accrued taxes other than income tax	**27,898**	28,373
Dividends payable	**16,143**	13,078
Other liabilities	**1,297**	2,320
	740,849	624,860

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

	(Unaudited) 30 June 2012 *RMB'000*	(Audited) 31 December 2011 *RMB'000* (Restated)
Trade payables, gross		
– Within 90 days	**348,727**	220,953
– Over 90 days and within 180 days	**28,077**	20,940
– Over 180 days and within 360 days	**24,063**	19,739
– Over 360 days and within 720 days	**13,773**	13,526
– Over 720 days	**3,328**	47,383
	417,968	322,541

10 ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA, LLC. from Hailong International. Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, our controlling shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")), and the control is not transitory. Accordingly, the transaction has been accounted for on the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, under which the net assets of Hilong USA, LLC. were consolidated by using the existing book values and the consolidated income statements included the results of Hilong USA, LLC. from the earliest date presented. The comparative amounts in the consolidated financial statements were restated as well.

The consideration of USD60,000 (equivalent to RMB380,000) transferred for the acquisition were debited to other reserve as a deemed distribution to our controlling shareholder.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The following table sets forth our revenue by business segments for the periods indicated:

	Six months ended 30 June			
	2012		2011 (Restated)	
	RMB'000	*%*	*RMB'000*	*%*
Drill pipes and related products				
– Drill pipes	**381,327**	**41.0**	276,732	36.3
– Drill pipe components	**5,536**	**0.6**	54,693	7.2
– Hardbanding	**7,752**	**0.8**	7,464	1.0
– Equipment	**7,115**	**0.8**	485	0.1
– Others	**11,212**	**1.2**	22,534	3.0
Subtotal	**412,942**	**44.4**	361,908	47.5
Coating materials and services				
– Oil and gas line pipe coating	**181,807**	**19.6**	161,821	21.2
– Oil Country Tubular Goods ("**OCTG**") coating	**91,396**	**9.8**	63,839	8.4
Subtotal	**273,203**	**29.4**	225,660	29.6
Oilfield services	**243,540**	**26.2**	174,352	22.9
Total revenue	**929,685**	**100.0**	761,920	100.0

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

	Six months ended 30 June			
	2012		2011 (Restated)	
	RMB'000	*%*	*RMB'000*	*%*
The PRC	**515,558**	**55.4**	390,009	51.2
North and South America	**198,505**	**21.4**	155,585	20.4
Russia, Central Asia and East Europe	**101,734**	**10.9**	58,990	7.8
West Africa	**65,026**	**7.0**	18,501	2.4
Middle East	**48,862**	**5.3**	138,835	18.2
	929,685	**100.0**	761,920	100.0

Revenue increased by RMB167.8 million, or 22.0%, from RMB761.9 million for the six months ended 30 June 2011 to RMB929.7 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 RMB51.0 million, or 14.1%, from RMB361.9 million for the six months ended 30 June 2011 to RMB412.9 million for the Interim Period. Such increase primarily reflected an increase in revenue derived from sales of drill pipes, partially offset by a decrease in revenue derived from sales of drill pipe components.

The following table sets forth revenue analysis of the drill pipes sale for the periods indicated:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000* (Restated)
Sales of drill pipes		
– International market		
– volume (tonnes)	**7,415**	5,841
– unit price (RMB/tonne)	**22,076**	25,825
Subtotal (RMB'000)	**163,695**	150,842
– Domestic market		
– volume (tonnes)	**9,330**	4,629
– unit price (RMB/tonne)	**23,326**	27,196
Subtotal (RMB'000)	**217,632**	125,890
Total (RMB'000)	**381,327**	276,732

Revenue from sales of drill pipes in the international market increased by RMB12.9 million, or 8.6%, from RMB150.8 million for the six months ended 30 June 2011 to RMB163.7 million for the Interim Period. The increase primarily reflected a 26.9% increase in the volume of drill pipes sold from 5,841 tonnes for the six months ended 30 June 2011 to 7,415 tonnes for the Interim Period, partially offset by a 14.5% decrease in the average selling price in the international market from RMB25,825 per tonne for the six months ended 30 June 2011 to RMB22,076 per tonne for the Interim Period. The increase in the sales volume primarily reflected the Group's continuous effort in expanding international market share and an increased level of capital spending by international oil and gas companies in drilling activities. The decrease in the average selling price primarily reflected a higher portion of revenue from Russia and East Europe where drill pipes are generally sold at a lower price compared to other regions.

Revenue from sales of drill pipes in the PRC market increased by RMB91.7 million, or 72.8%, from RMB125.9 million for the six months ended 30 June 2011 to RMB217.6 million for the Interim Period. The increase primarily reflected a 101.6% increase in volume of drill pipes sold in the PRC market from 4,629 tonnes for the six months ended 30 June 2011 to 9,330 tonnes for the Interim Period, partially offset by a 14.2% decrease in average selling price sold in the PRC market from RMB27,196 per tonne for the six months ended 30 June 2011 to RMB23,326 per tonne for the Interim Period. The increase in the sales volume primarily reflected (i) in the Interim Period, the Group sold more than 3,000 tonnes drill pipes to certain domestic drilling rig manufacturers for their rigs sales to South America, where the Group's sales team targeted to enter into and develop the market, and (ii) an increased level of demand on the Group's drill pipes and capital spending by oil and gas companies in the PRC market, especially China National Petroleum Corporation ("**CNPC**") and China Petrochemical Corporation ("**Sinopec Group**"). The decrease in average selling price primarily reflected (i) the aforementioned over 3,000 tonnes drill pipes were sold at lower prices as the Group's strategy to build up and enhance brand recognition in South America, and (ii) the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group decreased in 2012 compared to that in 2011.

Revenue from sales of drill pipe components decreased by RMB49.2 million, from RMB54.7 million for the six months ended 30 June 2011 to RMB5.5 million for the Interim Period. Sales of drill pipe components for the six months ended 30 June 2011 primarily represented steel pipes and joints sold to the Group's then jointly controlled entity in the Middle East, which was acquired by the Group as a subsidiary at the end of 2011.

Coating materials and services. Revenue from the coating materials and services segment increased by RMB47.5 million, or 21.0%, from RMB225.7 million for the six months ended 30 June 2011 to RMB273.2 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating and OCTG coating services, partially offset by a decrease in the revenue derived from oil and gas line pipe coating materials.

The increase in revenue from OCTG coating services primarily reflected an increase in our manufacturing capacity and utilization rate in providing OCTG coating services coupled with a higher demand for our services in the Interim Period compared to that in the six months ended 30 June 2011.

The increase in revenue from oil and gas line pipe coating services primarily reflected (i) an increase in manufacturing capacity which enabled the Group to provide coating services for up to 18-meter-length oil and gas line pipe since the end of 2011, and (ii) revenue derived from Corrosion Resistance Alloy Lined Pipe services, which was newly launched in the Interim Period.

The decrease in revenue from oil and gas line pipe coating materials reflected a 14.4% decrease in volume from 7,183 tonnes for the six months ended 30 June 2011 to 6,149 tonnes for the Interim Period, partially offset by a 1.0% increase in average selling price from RMB10,436 per tonne for the six months ended 30 June 2011 to RMB10,542 per tonne for the Interim Period. The decrease in the sales volume primarily reflected the Group's strengthening control over customer evaluation to lower credit risk and to improve profitability.

Oilfield services. Revenue from the oilfield services segment increased by RMB69.1 million from RMB174.4 million for the six months ended 30 June 2011 to RMB243.5 million for the Interim Period. Such increase was attributable to the oilfield service projects in West Africa from which the Group started to generate revenue since May 2011 and April 2012 respectively, and in Ecuador from which the Group started to generate revenue during the last quarter of 2011, partially offset by the decrease in the revenue derived from the sale of tubing and casing products purchased from third parties to oilfield services clients.

Cost of Sales

Cost of sales increased by RMB132.7 million, or 31.2%, from RMB425.4 million for the six months ended 30 June 2011 to RMB558.1 million for the Interim Period. Such increase primarily reflected an increase in cost of raw materials associated with the increase in revenue from drill pipes and related products segment and also with coating materials and services segment, coupled with an increase in depreciation of drilling equipments and other related costs associated with the expansion of oilfield services segment in the Interim Period compared with that in the six months ended 30 June 2011.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB35.0 million, or 10.4%, from RMB336.5 million for the six months ended 30 June 2011 to RMB371.5 million for the Interim Period. Gross profit margin decreased from 44.2% for the six months ended 30 June 2011 to 40.0% for the Interim Period. The decrease in gross profit margin primarily reflected the decrease in gross profit margin from drill pipes and related products segment and oilfield services segment.

Gross profit margin of drill pipes and related products segment decreased from 43.0% for the six months ended 30 June 2011 to 37.3% for the Interim Period, reflecting the decreased average selling price in both the PRC and the international market, partially offset by the decreased unit cost due to the decrease in steel price and better cost control.

Gross profit margin of oilfield services segment decreased from 45.3% for the six months ended 30 June 2011 to 39.9% for the Interim Period. The decrease primarily reflected that (i) gross profit margin of oilfield services decreased as normal operations of the drilling rig in the Middle East was temporarily suspended while relocation costs and inspection costs were incurred during the Interim Period, and (ii) gross profit margin of sale of tubing and casing products decreased due to lower average selling price in the Interim Period.

Selling and Marketing Expenses

Selling and marketing expenses decreased from 5.7% of revenue for the six months ended 30 June 2011 to 4.8% of revenue for the Interim Period. Such decrease, as a percentage of revenue, primarily reflected better control over freight cost during the Interim Period.

Administrative Expenses

Administrative expenses increased by RMB18.8 million, or 17.7%, from RMB106.3 million for the six months ended 30 June 2011 to RMB125.1 million for the Interim Period. Such increase primarily reflected (i) administrative expenses of RMB11.0 million incurred during the Interim Period in three subsidiaries acquired by the Group in the second half of 2011, (ii) an increase in depreciation charges, staff costs and travel expenses incurred in connection with the expansion of oilfield services segment, (iii) an increase in recurring professional services fees and headquarter office expenses after 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**"), and (iv) the Group provided RMB3.7 million specific provision for impairment of certain receivables in the Interim Period, partially offset by a decrease in expenses incurred in 2011 in connection with the Global Offering.

Finance Costs

Finance costs increased by RMB6.8 million, or 23.7%, from RMB28.7 million for the six months ended 30 June 2011 to RMB35.5 million for the Interim Period. Such increase primarily reflected an accretion of interest of RMB15.0 million in relation to the liability component of convertible bonds, partially offset by a RMB6.5 million decrease in interest in relation to the liability component of Series A convertible preferred shares using effective interest method. Such Series A convertible preferred shares were fully converted into ordinary shares upon listing of the Company's shares on the Stock Exchange.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB153.1 million for the six months ended 30 June 2011 to RMB159.4 million for the Interim Period.

Income Tax Expense

Income tax expense decreased by RMB6.9 million, or 28.5%, from RMB24.2 million for the six months ended 30 June 2011 to RMB17.3 million for the Interim Period. Effective tax rate was approximately 15.8% for the six months ended 30 June 2011 and 10.8% for the Interim Period.

Profit for the Period

As a result of the foregoing, profit for the period increased from RMB128.9 million for the six months ended 30 June 2011 to RMB142.1 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 of the dates indicated as well as the turnover of average inventory for the periods indicated.

	As at 30 June 2012 ***RMB'000***	As at 31 December 2011 *RMB'000* (Restated)
Inventory	**596,090**	509,510
Turnover days of inventory (in days)[(1)]	**180**	149

(1) Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2011. 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.

The increase in inventory turnover days from 149 days as at 31 December 2011 to 180 days as at 30 June 2012 primarily reflected an increase in inventory balance associated with (i) the procurement of steel pipes for drill pipes and related products due to the expected increase in production volume from the second quarter of 2012, and (ii) the procurement of stainless steel tube for coating materials and services segment for the production of newly launched product, Corrosion Resistance Alloy Lined Pipe.

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 2012 *RMB'000*	As at 31 December 2011 *RMB'000* (Restated)
Trade receivables		
– Due from third parties	**1,055,883**	968,580
– Due from related parties	**17,204**	59,350
– Less: Provision for impairment of receivables	**(14,724)**	(11,033)
Trade receivables – net	**1,058,363**	1,016,897
Other receivables		
– Due from third parties	**64,647**	44,123
– Due from related parties	**54,227**	55,740
Other receivables	**118,874**	99,863
Bills receivable	**22,398**	31,878
Dividends receivable	**1,572**	–
Prepayments	**123,819**	164,514
Total	**1,325,026**	1,313,152

Net trade receivables represent receivables from the sale of products and provision of services to third party customers and related parties, less impairment of receivables. The following table sets forth an aging analysis of trade receivables due from third parties and related parties as at the dates indicated and turnover days of the net trade receivables as at the dates indicated.

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000 (Restated)
Trade receivables, gross		
– Within 90 days	**669,721**	602,667
– Over 90 days and within 180 days	**81,557**	213,645
– Over 180 days and within 360 days	**212,511**	109,046
– Over 360 days and within 720 days	**72,940**	75,107
– Over 720 days	**36,358**	27,455
	1,073,087	1,027,930
Turnover days of trade receivables[1]	**203**	177

[1] Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2011. 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.

As at 31 December 2011 and 30 June 2012, trade receivables of RMB414.2 million and RMB388.6 million, representing 40.3% and 36.2% respectively, of the Group's trade receivables before impairment remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from subsidiaries' related party entities. As at the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

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 2012 ***RMB'000***	As at 31 December 2011 *RMB'000* (Restated)
Bills payable	**136,538**	103,195
Trade payables:		
– Due to third parties	**399,728**	312,406
– Due to related parties	**18,240**	10,135
Other payables:		
– Due to third parties	**45,840**	44,331
– Due to related parties	**12,068**	33,900
Staff salaries and welfare payables	**26,075**	32,328
Advance from customers	**55,291**	43,030
Interest payables	**1,731**	1,764
Accrued taxes other than income tax	**27,898**	28,373
Dividends payable	**16,143**	13,078
Other liabilities	**1,297**	2,320
	740,849	624,860

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 2012 *RMB'000*	As at 31 December 2011 *RMB'000* (Restated)
Trade payables, gross		
– Within 90 days	**348,727**	220,953
– Over 90 days and within 180 days	**28,077**	20,940
– Over 180 days and within 360 days	**24,063**	19,739
– Over 360 days and within 720 days	**13,773**	13,526
– Over 720 days	**3,328**	47,383
	417,968	322,541
Turnover days of trade payables[1]	**121**	102

[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 182 for the Interim Period, and by 365 for the year ended 31 December 2011. 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 increase in the balance of trade payables due to third parties from 31 December 2011 to 30 June 2012 reflected the procurement of 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 2012, the Group had utilized approximately HK$940 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 2012 is summarized in the following table:

	Planned at the Global Offering *HKD in million*	**Residual balance as at 30 June 2012** *HKD in million*
Gross proceeds from the Global Offering	1,040	
Net proceeds after expenses	954	
Expansion of coating materials and services	229	14
Expansion of oilfield services	224	–
Repayment of outstanding balances due to controlling shareholder	189	–
Repayment of bank borrowings	165	–
Upgrading of production capacity for drill pipes	95	–
Working capital and general corporate purpose	52	–
Total	954	14

Dividends

During the Interim Period, a final dividend of HK6.9 cents per share of the Company (the "**Share**"), amounting to a total dividend of approximately HK$109.8 million (equivalent to approximately RMB89.0 million) for the year ended 31 December 2011, was paid to shareholders of the Company.

The Board resolved not to declare any interim dividend for the Interim Period.

Business Review

In the first half of 2012, despite the complex global economic environment, Hilong managed to maintain a solid growth in our business. In all three segments, drill pipes and related products, coating materials and services and oilfield services, we successfully executed our growth strategies and achieved revenue increase compared with the same period last year. Also, we achieved breakthroughs in R&D, production and marketing. In addition to maintaining our leading position in domestic drill pipe and coating markets, Hilong dedicated to implementing our international expansion plans and building up a global network rapidly.

1. Drill pipes and related products segment

In the first half of 2012, revenue from drill pipes and related products segment grew by 14% on period-on-period basis and reached to RMB413 million. Revenue from this segment was primarily derived from the sales of drill pipes. The sales volume of drill pipes was 16,745 tonnes, representing a 60% increase compared with the same period last year. During this period, the average selling price of drill pipes decreased, led by the selling price decrease of API standard drill pipes in domestic market, and by our price adjustment to help Hilong enter into new geographical regions. However, through better control over cost, we maintained the gross profit margin of this segment above 37%. The segment well executed the growth plan through upgrading production capacity, expanding overseas and focusing on high end products.

On the production front, Hilong upgraded and adjusted the drill pipe production line located in Shanghai and made improvements for the key bottleneck processes and technologies. As a result, the production efficiency was significantly improved and the product offerings were extended from 9 meters long drill pipes to 14 meters. With our market-oriented R&D efforts and strong sales network, the utilization rate of drill pipe facility was substantially enhanced over the same period last year, from 52% to 75%, while the annual capacity in the PRC plant maintained at 40,600 tonnes. Hilong Petroleum Pipe Company LLC., the subsidiary located in Abu Dhabi that we acquired in the end of 2011, has commenced mass production and gradually increasing its production volume. In the future, its annual capacity contribution is estimated at about 10,000 tonnes. At the same time, Hilong Petroleum Pipe Company LLC. has passed the certification process of most of the key customers, laying a strong foundation for its future growth.

In relation to R&D, Hilong's R&D team has successfully marketed series of new customized products, such as large-diameter drill pipe series, including $8^{5}/_{8}$" drill pipe used in coal seam gas reserve circulation drilling, which sets the largest diameter specification for drill pipes produced in China; and $5^{7}/_{8}$" drill pipe, which is becoming the choice for ultra-deep wells, deep-water offshore drilling and extended reach wells. In addition, products, including sour service heavy-weight drill pipes and sour service drill pipe tool joints, have passed various tests and won sales contracts from Canada.

On the marketing front, Hilong maintained its leadership in the PRC and Russia. In Canada, Middle East and South America, Hilong has made active steps in securing new customers, expanding market share and promoting high-end products. For example, in the first half of this year, Hilong for the first time won tender for the three-in-one customized products with sour service drill pipes, double-shoulder tool joints and sour service coatings in Canada. Hilong continued tapping into new regions in many ways. Compared with 2011, Hilong enhanced its cooperation with domestic rig manufacturers. In the first half of this year, Hilong sold more than 3,000 tonnes of drill pipes to Chinese rig manufactures to be used in their new rigs exported to South America.

2. Coating materials and services segment

For the Interim Period, revenue from coating materials and services segment increased by 21% period-on-period to RMB273 million. For this segment, we closely followed our growth strategies, increased the proportion of high-margin products and services, actively increased the capacity of OCTG coating services and stably retained our leading market position.

In the first half of 2012, the coating materials and services segment moved towards high-margin products and services. Compared with the first half of 2011, the fastest growing business sub-segments were OCTG and line pipe coating services of higher gross profit margin, followed by OCTG coating materials. We reduced the sales of line pipe coating materials, especially the standard coating materials generating lower margin. Consequently, the gross profit margin of this segment moved up from 37% for the second half of 2011 to 44% for the Interim Period.

Historically, the growth of OCTG coating materials and services business would be constrained by the capacity of the coating service plants. At the end of 2011, the coating services capacity of Hilong is about 2,600,000 meters per year, and in 2012, the expansion of the coating services capacity is continued. The construction of the coating plant located in Russia, an area near Yekaterinburg, has been almost completed. The plant has a production line for OCTG coating services with an annual capacity of about 600,000 meters, and it is supplemented with hard banding and welding facilities. The plant finished trial production in August this year, and is expected to commence mass production towards the end of the year. The construction of the OCTG coating service plant in Edmonton, Canada is continuing and it is anticipated to reach an annual capacity of about 600,000 meters after the completion of the construction. In China, Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. completed the upgrade of its production facilities at the end of last year, and is expected to contribute an annual capacity of about 800,000 meters. Capitalizing on geographical advantages, the new coating plants in Tianjin and Russia have built satisfactory orderbook.

For the line pipe coating materials and services, Hilong focused on complex, large-scale projects, for instance, the West-to-East Gas Pipeline Project Phase III. Among international projects, Hilong is becoming better and better recognized. For example, in the Petroleum Development Oman PDO Gas Transportation Project, being the world's longest single bi-directional stainless steel coating project, Hilong has successfully passed the certification, and has become the only qualified Chinese line coating service provider. In addition to traditional line pipe coating materials and services, we also launched a new anti-corrosion technique, the Corrosion Resistance Alloy Lined Pipe services. The newly launched service is well recognized by customers and realized sales from energy projects in Turkmenistan.

With respect to R&D efforts, Hilong continued rolling out new products and technologies, such as heat-resistant coating materials for oilfield transmission pipes and interior anti-corrosion coating materials for deep water offshore gas transmission pipes, which were successfully launched to the market.

3. Oilfield services segment

For the Interim Period, revenue from oilfield services segment recorded a period-on-period growth of 40% to RMB244 million. As of 30 June 2012, Hilong's oilfield services team operated a total of 10 sets of drilling equipment overseas, increased from 9 sets at the end of 2011. We have a new rig in Colombia that commenced drilling in June this year. Another rig that commenced drilling this year was the one which won a drilling contract from Shell at the end of last year, and commenced drilling this April.

During the Interim Period, our oilfield services team continued enhancing our service capabilities and received very positive feedback from customers, proved by renewed contracts from large international customers such as Shell and Schlumberger. The new rig that commenced drilling in Columbia in June was engaged by a subsidiary of Sinochem Group, marking our entry into the Colombian market for the first time. Hilong's oilfield services team was well-reputed amongst customers for our superb services. Our Kazakhstan and Nigeria teams were rewarded repeatedly performance-based bonuses from our customers for their efficiency and premium work quality.

Prospects

Looking forward to the second half of 2012, Hilong will continue adhering to its development plans: maintain a leading position in the domestic market and expand market shares internationally leveraging the Middle East plant and the newly acquired Hilong USA, LLC. Meanwhile, Hilong will also focus on the R&D of high-end products, so as to enhance its profitability.

For drill pipes and related products segment, Hilong will continue increasing overseas market presence and enhancing its competitiveness in high-end products. At the same time, Hilong will control costs through facility upgrade and further integration of production processes.

In respect of coating segment, for OCTG coating materials and services, Hilong will continue the construction of coating plant in Canada. On top of the existing OCTG coating orders, we will capture more high-quality customers and orders. For the line pipe coating services, in addition to the existing products offerings, active efforts will be made to promote the Corrosion Resistance Alloy Lined Pipe technology. We have also commenced the construction of the concrete weight coating project for offshore transmission pipes, and Hilong will seek to complete the construction of the production line.

The oilfield services team will continue working on the drilling contracts. We will enhance the regional management efficiency. After the Interim Period, Hilong's oilfield services team secured two new drilling service contracts with Schlumberger's local joint venture in Ecuador. The two drilling contracts will be commenced in the second half of this year.

On group management level, Hilong will enhance its corporate governance, control administrative expenses, and better manage working capital.

We are very confident when looking into the second half of the year. Usually, drilling operations are more active in the second half of the year than the first half. From our current orderbook, we are expecting an increasing demand as compared with the first half of the year, with a higher percentage of high-end products and services. We also believe that the Group's business will benefit from the PRC's strong supporting policies for the exploration of natural gas, shale gas, coal seam gas and other unconventioned gas, as well as the construction of oil and gas transmission pipelines. We firmly believe, with our continuous efforts, Hilong will maintain the growth momentum, keep offering high quality products and services to our customers, and create greater returns for our shareholders.

Liquidity and Financial Resources

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000* (Restated)
Net cash generated from/(used in) operating activities	**110,824**	(39,371)
Net cash used in investing activities	**(156,812)**	(320,755)
Net cash (used in)/generated from financing activities	**(31,859)**	339,258
Net decrease in cash and cash equivalents	**(77,847)**	(21,228)
Exchange gains/(losses) on cash and cash equivalents	**450**	(947)
Cash and cash equivalents at beginning of the period	**325,500**	256,802
Cash and cash equivalents at end of the period	**248,103**	234,627

Operating Activities

Net cash from operating activities for the Interim Period was RMB110.8 million, representing an increase of RMB150.2 million compared with the same period in 2011, which was primarily attributable to the cash of RMB162.8 million generated from operations, partially offset by the interest payment of RMB20.5 million and income tax payment of RMB31.5 million.

Investing Activities

Net cash used in investing activities during the Interim Period was RMB156.8 million, representing a decrease of RMB164.0 million compared with the same period in 2011, which was primarily attributable to the payment of RMB101.8 million in connection with the acquisition of non-controlling interests and the payment of RMB31.8 million in connection with purchase of lease prepayments in the six months ended 30 June 2011.

Financing Activities

Net cash used in financing activities for the Interim Period was RMB31.9 million, while net cash generated from financing activities for the six months ended 30 June 2011 was RMB339.3 million. The net cash generated from financing activities for the six months ended 30 June 2011 was mainly attributable to the proceeds of RMB817.5 million from the Global Offering and the payment of RMB249.5 million in connection with the reorganization of the Group.

Capital Expenditures

Capital expenditures were RMB207.2 million and RMB270.9 million for the six months ended 30 June 2011 and the Interim Period, respectively. The increase in capital expenditures for the Interim Period primarily reflected the purchase of drill rigs and related equipments.

Indebtedness

As at 30 June 2012, the outstanding indebtedness of RMB858.4 million was mainly denominated in RMB and HKD. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2012	As at 31 December 2011
	RMB'000	*RMB'000* (Restated)
Non-current		
Convertible bonds	**193,268**	178,741
Bank borrowings – unsecured	**10,000**	1,200
Bank borrowings – secured	**94,873**	–
Less: Current portion of non-current borrowings	**–**	(1,200)
	298,141	178,741
Current		
Bank borrowings – secured	**206,274**	267,306
Bank borrowings – unsecured	**354,000**	306,574
Related party borrowing	**–**	7,876
Current portion of non-current borrowing	**–**	1,200
	560,274	582,956
	858,415	761,697

The bank borrowings of RMB152.0 million were secured by certain buildings and facilities and land use rights of the Group, with carrying amount of RMB156.3 million and RMB38.8 million as at 30 June 2012, respectively.

The bank borrowings of RMB139.1 million were secured by certain machinery and equipment with carrying amount of RMB151.8 million and certain bank deposit of the Group with carrying amount of RMB30.8 million as at 30 June 2012.

The bank borrowings of RMB10.0 million were secured by certain trade receivables with carrying amount of RMB11.2 million as at 30 June 2012.

Acquisition of a Subsidiary under Common Control

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA, LLC. from Hailong International at a purchase price of USD60,000. Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, our controlling shareholder, and the control is not transitory. Accordingly, the transaction has been accounted for on the principle of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, under which the net assets of Hilong USA, LLC. were consolidated by using their existing book values and the consolidated income statements included the results of Hilong USA, LLC. from the earliest date presented. The comparative amounts in the consolidated financial statements were restated as well.

Staff and Remuneration Policy

As at 30 June 2012, the total number of full-time employees employed by the Group was 1,921 (31 December 2011: 1,738). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2012:

On-site workers	1,261
Administrative	427
Research and development	101
Sales and marketing	44
Company management	23
After-sales services	16
Overseas representatives	49
	1,921

The Group offers employees remuneration packages mainly on the basis of individual performance, experience and industrial practice, which include basic wages, performance related bonuses and the social security and benefits. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on the relevant statutory percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labour 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, and options to subscribe for an aggregate of 46,322,000 Shares have been granted.

Gearing Ratio

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

Consistent with peers in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheet plus net debt.

The gearing ratios as at 30 June 2012 and 31 December 2011 are as follows:

	As at 30 June 2012 *RMB'000*	As at 31 December 2011 *RMB'000* (Restated)
Total borrowings	**858,415**	761,697
Less: Cash and cash equivalents	**248,103**	325,500
Net debt	**610,312**	436,197
Total equity	**2,092,309**	2,038,622
Total capital	**2,702,621**	2,474,819
Gearing ratio	**22.58%**	17.63%

The increase in the gearing ratio as at 30 June 2012 when compared to the gearing ratio as at 31 December 2011 resulted primarily from the increase in the balance of borrowings for 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 calculated 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 the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 23.6% appreciation of Renminbi against the US dollars from 21 July 2005 to 30 June 2012. 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. For the six months ended 30 June 2011 and 2012, revenue denominated in US dollars represented 42.8% and 31.2% respectively of the total revenue of the Company.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Throughout the Interim Period, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code (and the new code provisions since 1 April 2012 when the amendments to the Corporate Governance Code became effective), except that:

(a) in respect of code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer of the Company are not separate and both are 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; and

(b) in respect of code provision A.6.7 of the Corporate Governance Code, a non-executive Director and two independent non-executive Directors were not in a position to attend the annual general meeting of the Company held on 11 May 2012 due to other commitments.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific enquiries to all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the Interim Period.

REVIEW OF INTERIM RESULTS

The audit committee of the Company, consisting of Mr. Lee Siang Chin, Mr. Wang Tao (王濤) and Ms. Zhang Shuman, has reviewed the interim results for the Interim Period before the results were submitted to the Board for approval.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company purchased a total of 8,660,000 Shares on the Stock Exchange for the year ended 31 December 2011, out of which 4,784,000 Shares were cancelled on delivery of the share certificates on 21 December 2011 and 3,876,000 Shares were cancelled on delivery of the share certificates on 9 January 2012.

Other than as disclosed above, there was no other purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the Interim Period.

PUBLICATION OF INTERIM RESULTS

This interim results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (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

24 August 2012

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