You should read this section in conjunction with our combined financial statements, including the notes thereto, as set forth in "Appendix I—Accountant's Report." Our financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States. This discussion contains forward-looking statements. There may be future events that we are unable to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

OVERVIEW

We are a leading PRC-based non-state owned integrated oilfield equipment and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. We recently expanded into the oilfield services business with an initial focus on drilling services, which we expect to become an increasingly significant revenue stream in the future.

We have attained our leading market positions by focusing on building capabilities in key components of the drilling equipment value chain: steel pipes (which are the principal raw material in manufacturing drill pipes and are supplied from our joint venture), drill pipe products, coating materials and services as well as hardbanding materials and services. Furthermore, we believe these capabilities help us derive benefits such as better control over product quality, greater ability to expedite delivery and provision of one-stop after-sales services, which contribute to more attractive pricing and greater ability to maintain profit margin. We believe that the quality, deliverability, service and price of our products provide a unique value proposition for our clients and further contribute to our ability to maintain our leading market positions.

Our major customers include China's largest oil and gas companies such as CNPC and Sinopec. We are also a qualified supplier to many of the major international oil and gas companies, including Schlumberger, Gazprom and Weatherford. In 2008, 2009 and 2010, to our knowledge of our customers' information, sales to CNPC and its affiliates accounted for 44.4%, 28.6% and 25.5% of our revenue, respectively; sales to Sinopec and its affiliates accounted for 5.9%, 7.6% and 9.6% of our revenue, respectively; and sales to Schlumberger, Weatherford and Gazprom, directly and through distributors, in the aggregate accounted for 14.9%, 1.8% and 3.1% of our revenue, respectively. We have established overseas sales offices strategically located in some of the most active regions in the oil and gas industry, including Russia, the United Arab Emirates and Canada. As our recently established oilfield services business continues to gain momentum, we expect our profile and recognition in the international markets to continue to grow. We believe that the diversity of our customer base and the balanced mix between our PRC sales and international sales contribute to our ability to manage through industry cycles.

Our operating results during the Track Record Period have been affected by the recent global financial crisis and the resulting changes in oil and gas drilling activity levels. See "Risk Factors—Risks Relating to Our Business and Industry—The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations." In addition, we entered coating business in 2002, drill pipe manufacturing business in 2005 and oilfield services business in 2008. As a result, we have a limited operating history for potential investors to evaluate our business prospects. See "Risk Factors—Risks Relating to Our Business and Industry—It is difficult to evaluate our results of operations and future prospects due to the significant fluctuation in our historical performance and our limited operating history." In 2008, 2009 and 2010, our revenue totaled RMB1,701.4 million, RMB1,006.7 million and RMB1,356.5 million, respectively. In 2008, 2009 and 2010, our net profit totaled RMB495.4 million, RMB110.0 million and RMB229.9 million, respectively.

BASIS OF PRESENTATION

Our Controlling Shareholders owned and controlled the companies now comprising our Group before the Reorganization and continues to own and control these companies after the Reorganization. The combined balance sheets, combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of our Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, or, as applicable, since its date of incorporation or the date when any company first became controlled by our Controlling Shareholders, whichever represents a shorter period, in a manner similar to the principles of merger accounting. All significant intra-group transactions and balances have been eliminated on combination.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

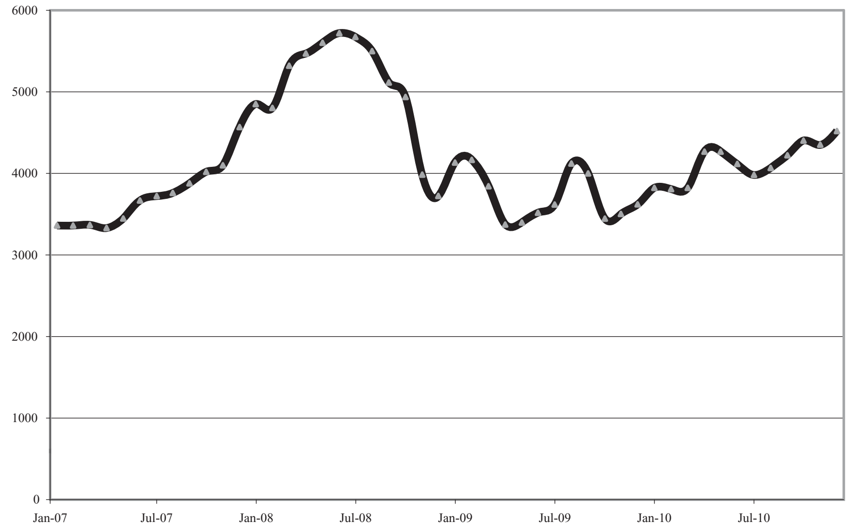
We believe the most significant factors that affect our business and results of operations include:

- *Demand for oil and gas equipment and services in China and globally*. Demand for our products and services, including drill pipes and related products and coating materials and services, is significantly affected by, among other things, the level of oil and gas production activity in China and elsewhere in the world. The PRC and global demand for oil and gas directly affects the level of oil and gas production activity, which is in turn reflected in the number of PRC and worldwide oil and gas wells being drilled and completed. Any increase in oil prices could increase the level of capital expenditure by oil and gas companies and demand for oil and gas products and services. International oil and gas prices fluctuated significantly during the Track Record Period, which significantly affected our business and results of operations. For example, West Texas Intermediate spot price increased from US$50 per barrel in January 2007 to an unprecedented high level of US$145 per barrel in July 2008. Our revenue and profitability increased significantly from 2007 to 2008, due in part to the continued increase in oil and gas prices. West Texas Intermediate spot price decreased to US$31 per barrel in December 2008 and then increased and stayed within the range of US$33 to US$82 per barrel in 2009. In 2009, our revenue and profitability decreased significantly, primarily reflecting the significant decrease in oil and gas prices since September 2008 as well as the market trends of global oil and gas prices in 2009. In addition, our turnover days of inventory and trade receivables also increased significantly in 2009. West Texas Intermediate spot price stayed within the range of US$65 to US$92 per barrel during 2010. See "Industry Overview—Global Oil and Gas Market" for more information on historical oil and gas prices. In addition, the depletion of conventional oil and gas reserves has increased demand for premium oil and gas production equipment that can operate in the harsh environment often found in non-conventional reserves.

- *Ability to increase utilization rate and expand capacity*. Our ability to increase revenue is significantly dependent on our ability to increase production and processing capacities and utilization rate. For example, from 2008 to 2009, we increased our capacity and utilization rates in providing oil and gas line pipe coating services. As a result, we were able to significantly increase revenue derived from provision of such services during the same period. Our utilization rate in the production of drill pipes and coating materials also increased in 2008. In addition, we have also experienced significant growth in our oilfield service business since we started this business in 2008, which was in line with our efforts to expand the operational scale of this business by adding three drilling rigs in 2009 and one drilling rig in 2010. Our future growth depends on our ability to continue to expand our production and service capacity.

- *Raw material prices*. Raw materials accounted for a significant majority of our cost of sales during the Track Record Period. The principal raw material for our drill pipes and related products production is steel pipes and other steel based components. The principal raw material for our coating materials and services is polyethylene and other petrochemicals. We primarily procure our raw materials in China, and the prices of raw material have historically fluctuated significantly. For example, steel price in China experienced continued growth since early 2007 until it reached the peak in mid 2008. Merchant steel bar spot price in China was RMB5,700 per ton in June 2008 according to CRU Steel Monitor. Since then, steel price in China started to decrease until late 2008 and early 2009, when it started to fluctuate with a general increasing trend. See below a diagram illustrating the historical fluctuation in steel prices during the Track Record Period. Historically, the changes in polyethylene price in China correlated with the changes in oil and gas prices.

China Merchant Steel Bar spot price (in RMB per ton)



Source: CRU Steel Monitor

As a result, our cost of sales increased in 2008 and decreased in 2009, in part reflecting the fluctuation in steel and polyethylene prices in China during the same period. We may not be able to effectively pass on any increase in raw material costs to our customers. For example, because we generally sell products to large-scale oil and gas companies in China at fixed prices subject only to limited adjustments based on parties' negotiations during the annual term, the selling price of our products may not effectively reflect the fluctuation in raw material prices. We believe the fluctuation in raw materials prices will continue to impact our profitability.

- *Product and service mix*. During the Track Record Period, our revenue was generated through three operating segments, i.e., drill pipes and related products segment, coating materials and services segment and since 2008, oilfield services segment. Revenue from any operating segment may fluctuate significantly from period to period, and these operating segments have historically yielded different gross margins. During the Track Record Period, the revenue and gross margin of our drill pipes and related products segment both experienced significant fluctuation. Revenue from coating materials and services segment increases from 2008 to 2009 but decreased in 2010, whilst the gross margin of this segment experienced continued increase during the Track Record Period. The revenue and gross margin of our oilfield services segment both experienced growth since we commenced this business in 2008. As a result, changes in percentage of revenue derived from, as well as the fluctuations in gross margin yielded from, each operating segment are expected to continue to affect our overall results of operations. In addition, we have from time to time purchased equipment and other products from third parties for the sale to clients of our oilfield services projects. These transactions, the value of which could be large, are likely to continue in the future. In addition, contract values of certain line pipe coating projects and oilfield services projects are large and a significant portion of our revenue from these business lines has historically been generated through a small number of contracts or engagements, which could contribute to the significant fluctuation in financial results from period to period. For example, in 2010, our revenue from oil and gas line pipe coating business decreased significantly, primarily reflecting a decrease in the revenue from West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, as the current phase of the project concluded in early 2010. Revenue generated from oilfield services segment as a percentage of our total revenue increased significantly from 5.3% in 2009 to 20.0% in 2010, reflecting, among other things, revenue derived from the sale of tubing and casing products, which we purchased from third parties, to an oilfield services client in Ecuador in 2010.

- *Regulatory environment*. The oil and gas equipment manufacturing industry is subject to extensive regulation by the government, industry organizations and international standardization bodies. These regulations set forth requirements and standards for the manufacturing, functionality and safety performance of our products. Our adherence to such regulations and standards can be expensive, which can result in increased manufacturing, development and marketing costs. See "Risk Factors—Risks Relating to Our Business and Industry—The oil and gas equipment manufacturing industry is subject to regulation, and we may not successfully obtain and maintain the necessary regulatory permits, approvals or clearance for the production and sale of our products in certain markets."

Our operating results during the Track Record Period have been affected by the recent global financial crisis and the resulting changes in oil and gas drilling activity levels. In addition, we are also subject to various other factors that affect our business and results of operations. As our historical performance experienced significant fluctuations during the Track Record Period, our historical operating results may not an indication of our future performance. We intend to continue to implement measures to address the fluctuations in financial results. In particular, we intend to:

- closely monitor the oil and gas prices as well as market demand for our products and services and actively adjust our capacity and resources accordingly;

- closely monitor our utilization rate and to continue to allocate financial resources to expand our production and service capacity should business opportunities arise;

- price our products to reflect the fluctuation in raw material prices to the extent possible. In addition, we may actively seek opportunities to vertically integrate into raw material supply through the technologies acquisitions or through business acquisition and alliance opportunities along our value chain to manage our raw material costs; and

- optimize our mix of products and services. We expect to continue closely monitoring the performance and profitability of each of our business line, actively adjusting our business operation and capacity allocation accordingly and actively competing for engagements with strong potential for revenue growth. We also intend to implement our key business strategy to further grow our business for the purposes of maximizing our overall profitability.

See "Business—Business Strategy" for more information.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of our combined financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting estimate or judgment is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the combined financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our combined financial statements and other disclosures included elsewhere in this prospectus.

Current Income Taxes and Deferred Tax

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

Useful Lives of Property, Plant and Equipment

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

Impairment for Trade Receivables

The average credit period granted to our customers is between 30 to 270 days. We believe that delay in receiving payments from certain customers was mainly attributable to, among other things, unfavorable global market conditions for oil and gas industry, deteriorating liquidity position of our customers or delayed commencement of oil and gas exploratory or production activities due to various reasons beyond our control. Because there is no indication that the delay in payment constitutes a financing transaction, we did not recognize revenue by discounting the related receivable/received amount to its present value.

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability and time value of trade and other receivables. Significant judgment is required in assessing the ultimate realization of these receivables, including the past collection history of each counterparty, the current creditworthiness and the current market condition. Our major customers include PRC state-owned oil and gas companies, which accounted for a majority of our overdue receivables. Based on the prior dealing experience, current financial position of these customers and market conditions, we did not expect any loss from non-payment by these customers. As of each balance sheet date, we assessed time value of trade and other receivables based on the current expectation of the collection period, the difference between the carrying amount and the present value of the estimated future cash flows represented by such receivables is not significant. Accordingly, we did not provide additional impairment provision for such receivables.

Estimated Write-downs of Inventories

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

DESCRIPTION OF SELECTED INCOME STATEMENTS LINE ITEMS

The following tables set forth a summary of our combined results of operations for the periods indicated. This information should be read together with our combined financial statements and related notes included elsewhere in this prospectus. The operating results in any period are not necessarily indicative of results that may be expected for any future period.

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Revenue	1,701,380	100.0	1,006,656	100.0	1,356,462	100.0
Cost of sales/services	(935,615)	(55.0)	(621,083)	(61.7)	(799,856)	(59.0)
Gross profit	**765,765**	**45.0**	**385,573**	**38.3**	**556,606**	**41.0**
Selling and marketing expenses	(88,820)	(5.2)	(82,684)	(8.2)	(79,026)	(5.8)
Administrative expenses	(109,503)	(6.4)	(138,103)	(13.7)	(172,210)	(12.7)
Other income	7,273	0.4	—	—	—	—
Other gains—net	853	0.1	2,760	0.2	15,085	1.1
Operating profit	**575,568**	**33.8**	**167,546**	**16.6**	**320,455**	**23.6**
Finance income	1,830	0.1	1,743	0.2	700	0.1
Finance costs	(15,177)	(0.9)	(19,699)	(2.0)	(30,476)	(2.2)
Share of results of associates	999	0.1	(353)	(0.0)	1,258	0.1
Share of profit of jointly controlled entities	(1,646)	(0.1)	(13,532)	(1.3)	(16,756)	(1.2)
Profit before income tax	**561,574**	**33.0**	**135,705**	**13.5**	**275,181**	**20.3**
Income tax expense	(66,142)	(3.9)	(25,689)	(2.6)	(45,275)	(3.3)
Profit for the year	**495,432**	**29.1**	**110,016**	**10.9**	**229,906**	**16.9**
Profit attributable to:						
Equity holders of the Company	437,290	N/A	60,627	N/A	178,369	N/A

Revenue

Our revenue represents the sales of drill pipes and related products, sales of coating materials and provision of coating services as well as provision of oilfield services, after elimination of inter-segment sales. Revenue is presented net of value-added tax, returns, rebates and discounts. Our revenue from the sales of goods, such as drill pipes, coating materials and related products, is recognized when the risk and reward of the goods has been transferred to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. With respect to sales with warranty arrangement, we recognize the amount represented by the retention money as revenue upon product delivery. Such amount is recorded as trade receivables until collected. Coating services revenue is recognized in the accounting period in which the services are rendered. Revenue from oilfield services, which may be provided on a day-rate contract basis or on a turnkey contract basis, is recognized under the percentage-of-completion method. Revenue from a day-rate contract is generally recognized on the basis of working hours performed as a percentage of total hours to be performed. Revenue from a turnkey contract is generally recognized based on the services performed to date as a percentage of total services to be performed. Any revision in the estimated revenue or cost as a result of change in circumstances is recorded during the period in which such circumstances become known to the management.

Revenue by Business Segment

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

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Drill pipes and related products						
Drill pipes	1,205,940	70.9	414,637	41.1	633,797	46.7
Hardbanding	13,684	0.8	13,730	1.4	25,263	1.9
Equipment	18,006	1.1	34,093	3.4	970	0.1
Others	23,632	1.4	56,126	5.6	53,038	3.9
Subtotal	**1,261,262**	**74.2**	**518,586**	**51.5**	**713,068**	**52.6**
Coating materials and services						
Oil and gas line pipe coating	217,728	12.8	334,675	33.2	242,707	17.9
Drill pipe coating	192,461	11.3	80,618	8.0	78,740	5.8
Tubing casing coating	5,745	0.3	19,733	2.0	50,409	3.7
Subtotal	**415,934**	**24.4**	**435,026**	**43.2**	**371,856**	**27.4**
Oilfield services	**24,184**	**1.4**	**53,044**	**5.3**	**271,538**	**20.0**
Total revenue	**1,701,380**	**100.0**	**1,006,656**	**100.0**	**1,356,462**	**100.0**

Key characteristics of the revenue in our business segments include the following:

- *Drill pipes and related products*. Revenue from this segment primarily includes revenue from sales of drill pipes, hardbanding and other related products. From time to time, we also generate revenue from sales of coating equipments and provision of raw materials to our associates and jointly controlled entities. The drill pipes and related products segment has been historically, and we expect it to continue to be, among our largest segments in terms of revenue contribution. The significant fluctuation of our historical revenue derived from this segment primarily reflected the fluctuations in international oil and gas prices. The following table sets forth our sales volume, average selling price and revenue of sales of drill pipes in international and PRC market for the periods indicated.

	For the year ended December 31,		
	2008	2009	2010
International market			
Sales volume *(tonnes)*	17,120	3,961	10,550
Average selling price *(RMB per tonne)*	37,829	29,395	25,842
Revenue *(thousands of RMB)*	647,642	116,433	272,630
PRC market			
Sales volume *(tonnes)*	21,900	11,314	14,469
Average selling price *(RMB per tonne)*	25,493	26,357	24,961
Revenue *(thousands of RMB)*	558,298	298,204	361,167

- *Coating materials and services*. Revenue from coating materials and services segment primarily includes revenue from sales of coating materials and provision of coating services for oil and gas line pipes, as well as revenue from provisions of coating services for drill pipes. Revenue from our oil and gas line pipe coating materials and services has historically been affected by the number and the sales volume of line pipe projects in China in which we are involved. Revenue from our drill pipe coating services has historically been significantly affected by the level of capital spending by major oil and gas companies, reflecting the fluctuation in international oil and gas prices. Contract values of certain line pipe coating projects are large and a significant portion of our revenue from these business lines has historically been generated through a small number of contracts, which could contribute to the significant fluctuation in financial results from period to period. For example, in 2010, our revenue from oil and gas line pipe coating business decreased significantly, primarily reflecting a decrease in the revenue from West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, as the current phase of the project concluded in early 2010.

- *Oilfield services*. Revenue from oilfield services segment primarily includes revenue from provisions of drilling and engineering services. We entered into the oilfield services business in 2008. Contract values of our oilfield services engagements are generally large, and our revenue from this segment has historically been generated through a small number of engagements per year. Accordingly, the financial results of our oilfield services segment may fluctuate significantly from period to period. The significant increase in revenue from oilfield services in 2010 primarily reflected our provision of tubing and casing products we procured from third party manufacturers to an oilfield services client in Ecuador.

Revenue by Geographical Market

The following table sets forth our revenue by geographical location of our customer for the periods indicated.

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
China	1,045,955	61.5	847,583	84.2	778,903	57.4
South America	—	—	14,238	1.4	193,195	14.3
Russia and Central Asia	484,431	28.5	116,648	11.6	209,186	15.4
Middle East	58,800	3.5	10,052	1.0	99,876	7.4
North America	52,949	3.1	4,607	0.5	57,606	4.2
Others	59,245	3.4	13,528	1.3	17,696	1.3
Total revenue	**1,701,380**	**100.0**	**1,006,656**	**100.0**	**1,356,462**	**100.0**

During the Track Record Period, revenue from the drill pipes and related products segment was generated from both PRC and international markets. Revenue from the coating materials and services segment was derived primarily from the PRC market. Revenue from the oilfield services segment was primarily derived from the international market.

In 2009, our revenue derived from the international market as a percentage of our total revenue decreased significantly, primarily reflecting the impact of the global financial crisis as well as a decrease in the level of oil and gas production activities resulting from the lower oil and gas prices in 2009 compared to 2008. During the same period, revenue from sales of drill pipes and related products decreased significantly in the Russia and Central Asia market as well as other international markets. In 2010, our sales to South America increased significantly, resulting from our sale of tubing and casing products purchased from third parties to an oilfield services client in Ecuador. Our revenue from sales of drill pipes in the Middle East and from oilfield services in Russia and Central Asia also increased significantly.

Cost of Sales/Services

Our cost of sales primarily consists of costs for raw materials, labor costs, utilities charges and depreciation of fixed assets. In 2008, 2009 and 2010, our cost of sales represented 55.0%, 61.7% and 59.0% of our total revenue, respectively. Historically, costs for raw materials have been one of the largest components of our cost of sales.

Selling and Marketing Expenses

Our selling and marketing expenses generally consist of transportation expenses, sales and marketing expenses and staff expenses. In 2008, 2009 and 2010, our selling and marketing expenses represented 5.2%, 8.2% and 5.8% of our total revenue, respectively.

Administrative Expenses

Our administrative expenses primarily consist of staff expenses, office and travel expenses, research and development expenses and depreciation of fixed assets. In 2008, 2009 and 2010, our administrative expenses represented 6.4%, 13.7% and 12.7% of our total revenue, respectively. Starting in 2011, we expect to incur additional expenses relating to our share option scheme. See Appendix VI—"Statutory and General Information—E. Pre IPO Share Option Scheme."

Other Income

We held a non-controlling interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and Shanghai Boteng Welding Consumable Co., Ltd. until we acquired controlling interests in these entities in 2008. We recognized an "other income" of RMB7.3 million in remeasuring our existing equity interest in such entities in 2008, reflecting the difference between (i) the value of our equity interests held prior to such acquisition determined with reference to the purchase price of our additional equity interest, and (ii) the fair value of such equity interests (which was determined to be the net book value) in these entities, in each case at the time of our acquisition of the controlling equity interest.

Other Gains—Net

Our other gains or losses primarily consist of government grants, gains or losses on disposal of property, plant and equipments, negative goodwill recognized in connection with our acquisitions and exchange gains or losses.

Finance Income

Our finance income primarily consists of interest income on our bank deposits.

Finance Costs

Our finance costs primarily consist of interest expenses on bank borrowings.

Share of Results of Associates

Our share of results of associates primarily consists of our share of our associates' results less any long-term receivables due from such associates. Historically, our associates included the following:

- *Coating services*. During the Track Record Period, we held interests in four associates engaging in provision of coating services businesses, including our investments in:

  (i) Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.;

  (ii) CNOOC Tube-Cote Tianjin Pipe Co., Ltd.;

  (iii) Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.; and

  (iv) Anshan Haidelong Anti-Corrosion Engineering Co., Ltd.

- *Manufacturing of special steel*. Our investments in Nantong Hilong Steel Pipe Co., Ltd., an associate engaging in manufacturing and distribution of special steel businesses.

Share of Results of Jointly Controlled Entities

Our share of results of jointly controlled entities was recognized in connection with (i) our 49% equity interest in Almansoori Hilong Petroleum Pipe Company, an entity engaging in manufacturing of drill pipes and provision of drill pipe coating services businesses, and (ii) our 50% equity interest in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd, an entity engaging in provision of coating services businesses.

Income Tax Expense

Our income tax provision in respect of operations in China has been calculated at the applicable tax rate on the estimated assessable profits pursuant to applicable laws and regulations, interpretations and practices. On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC, or the CIT Law, which became effective from January 1, 2008. Under the CIT Law, the corporate income tax rate applicable to our subsidiaries in China since January 1, 2008 is 25%.

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

Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. As a result, we need to withhold taxes on dividends distributed by our subsidiaries in China in respect of their earnings generated from January 1, 2008.

Certain subsidiaries of our Group enjoyed preferential income tax rates during the Track Record Period as foreign investment enterprises in China. In addition, three subsidiaries of our Group, namely, Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. and Shanghai Hilong Shine New Material Co., Ltd., have enjoyed preferential income tax rate of 15% since the year they are qualified as a new/high-technology enterprise. The following table sets forth the statutory income tax rate after taking into the effect of preferential tax treatment during the Track Record Period:.

	Year ended December 31,		
	2008	2009	2010
Hilong Group of Companies Ltd.	—	12.5%	12.5%
Shanghai Hilong Drill Pipe Co., Ltd.	—	12.5%	12.5%
Hilong Drill Pipe (Wuxi) Co., Ltd.	12.5%	12.5%	12.5%
Jiangsu Hilong Drill Pipe Co., Ltd	25%	25%	25%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	15%	15%	15%
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	25%	15%	15%
Shanghai Hilong Shine New Material Co., Ltd.	12.5%	12.5%	15%
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	12.5%	25%	25%

Our effective tax rate for the years ended December 31, 2008 and 2009 and 2010 was 11.8%, 18.9% and 16.5%, respectively.

We believe that our intra-group transactions were conducted on fair and reasonable terms. We did not engage any third party professional adviser to conduct transfer-pricing review upon our intra-group transactions. We are not aware of any transfer-pricing related governmental audit or investigation conducted upon our Group. We believe that the likelihood for these transactions to be subject to any transfer-pricing related tax adjustment, fine or penalty by relevant tax authorities is remote.

OUR RESULTS OF OPERATIONS

The following tables set forth our revenue and gross margin information by operating segment for the periods indicated. Such information should be read in conjunction with our audited combined financial statements and related notes included elsewhere in this prospectus.

	For the year ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)					
Revenue						
Drill pipes and related products	1,261,262	74.2%	518,586	51.5%	713,068	52.6
Coating materials and services	415,934	24.4	435,026	43.2	371,856	27.4
Oilfield services	24,184	1.4	53,044	5.3	271,538	20.0
Total	**1,701,380**	**100.0%**	**1,006,656**	**100.0%**	**1,356,462**	**100.0**

	For the year ended December 31,		
	2008	2009	2010
Gross Profit Margin			
Drill pipes and related products	45.6%	31.9%	36.7%
Coating materials and services	44.4%	46.6%	50.3%
Oilfield services	27.3%	32.1%	39.8%
Overall gross margin	**45.0%**	**38.3%**	**41.0%**

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

Our revenue increased by RMB349.8 million, or 34.7%, from RMB1,006.7 million in 2009 to RMB1,356.5 million in 2010. Such increase primarily reflected an increase in revenue from oilfield services segment and, to a lesser extent, from drill pipes and related products segment, which was partially offset by a decrease in revenue from the coating materials and services segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment increased by RMB194.5 million, or 37.5%, from RMB518.6 million in 2009 to RMB713.1 million in 2010. Such increase primarily reflected an increase in revenue derived from sales of drill pipes and related products in the international market.

Revenue from sales of drill pipes and related products in the international market increased by RMB168.3 million, from RMB122.4 million in 2009 to RMB290.7 million in 2010. The increase primarily reflected a 166.3% increase in the volume of drill pipe products sold from 3,961 tonnes in 2009 to 10,550 tonnes in 2010, partially offset by a 12.1% decrease in average selling price of drill pipe products sold in the international market from RMB29,395 per tonne in 2009 to RMB25,842 per tonne in 2010. The increase in the sales volume primarily reflected 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 in 2010 compared to 2009. A significant portion of the products sold in the international market in 2009 were delivered pursuant to sales contracts entered into in 2008, when the product prices were significantly higher. As a result, the average selling price of the products sold to the international market decreased in 2010.

Revenue from sales of drill pipes and related products in the PRC market increased by RMB26.2 million, or 6.6%, from RMB396.2 million in 2009 to RMB422.4 million in 2010. The increase primarily reflected an increase in revenue derived from sales of drill pipe products in China, partially offset by a decrease in revenue derived from sales of coating equipments to our associates. The increase in revenue derived from sales of drill pipes in China primarily reflected a 27.9% increase in volume of drill pipes sold in China from 11,314 tonnes in 2009 to 14,469 tonnes in 2010, reflecting an increased level of capital spending by oil and gas companies in China in drilling activities as a result of the generally higher level of oil and gas prices in 2010 compared to 2009.

Coating materials and services. Revenue from the coating materials and services segment decreased by RMB63.2 million, or 14.5%, from RMB435.0 million in 2009 to RMB371.9 million in 2010. Such decrease primarily reflected a decrease in the revenue from oil and gas line pipe coating material and service businesses in China, partially offset by an increase in revenue from tubing casing coating business. The decrease in revenue from line pipe coating businesses in turn reflected a decrease in revenue from West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, as the current phase of the project concluded in early 2010. The increase in revenue from tubing casing tubing business primarily reflected an increase in demand for such business in the PRC market in 2010.

Oilfield services. Revenue from the oilfield services segment increased significantly by RMB218.5 million from RMB53.0 million in 2009 to RMB271.5 million in 2010. Such increase primarily 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. The increase was also attributable to an oilfield services project in Kazakhstan from which we started to generate revenue during the last quarter of 2009.

Cost of Sales/Services

Our cost of sales increased by RMB178.8 million, or 28.8%, from RMB621.1 million in 2009 to RMB799.9 million in 2010. Such increase primarily reflected an increase in cost of raw materials in 2010, primarily reflecting our purchase of oil and gas tubing and casing products from third party manufacturers for the sale to an oilfield services client in Ecuador in 2010, coupled with the increase in cost of raw materials associated with the increase in revenue from our drill pipes and related products segment. The increase was partially offset by a decrease in cost of raw materials recognized in connection with our coating materials and services segment.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit increased by RMB171.0 million, or 44.4%, from RMB385.6 million in 2009 to RMB556.6 million in 2010. Our gross margin increased from 38.3% in 2009 to 41.0% in 2010. The increase in gross margin primarily reflected the increase in gross margin from drill pipes and related products segment and oilfield services segment.

Gross margin of our drill pipes and related products segment increased from 31.9% in 2009 to 36.7% in 2010, reflecting (i) increasing economies of scale, as a significant portion of our cost of sales incurred in this segment, including staff costs, utility charges and depreciation of fixed assets remained relatively stable despite the increase in sales; and (ii) our increase in procurement of steel pipes from Nantong Hilong Steel Pipe Co., Ltd., our associated entity in which we own 41% of equity interest and which offers favorable pricing terms to us compared to other third party suppliers in 2010.

Gross margin for our coating materials and services segment increased from 46.6% in 2009 to 50.3% in 2010. The increase primarily reflected a higher percentage of revenue generated from drill pipe coating and tubing casing coating businesses, which historically yielded higher gross margins compared to oil and gas line pipe coating business. In addition, the gross margin yielded from our drill pipe coating business also increased in the last quarter of 2010.

Gross margin for our oilfield service segment increased from 32.1% in 2009 to 39.8% in 2010. The increase primarily reflected the higher gross margin yielded by the drilling and engineering services provided as our services projects progressed and more operating information became available in 2010. Our subsidiaries in Kazakhstan and Ecuador commenced commercial operation and started to generate revenue through the provision of oilfield services in 2009. The initial costs incurred during such ramp-up period also contributed to a lower gross margin in 2009 compared to 2010.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB3.7 million, or 4.4%, from RMB82.7 million in 2009 to RMB79.0 million in 2010. Such decrease primarily reflected a decrease in sales and marketing expenses incurred by our drill pipes and related products segment and a decrease in transportation expenses of our coating materials and services segment, partially offset by the increase in transportation expenses associated with our sales of oil and gas tubing and casing products to an oilfield client in Ecuador in 2010.

Administrative Expenses

Our administrative expenses increased by RMB34.1 million, or 24.7%, from RMB138.1 million in 2009 to RMB172.2 million in 2010. Such increase primarily reflected (i) an increase in expenses incurred in connection with the Global Offering, (ii) an increase in research and development expenses incurred in connection with our drill pipes and related products segment, and (iii) an increase in depreciation charges, staff costs and transportation expenses incurred in connection with the expansion of our oilfield services segment.

Other Gains—Net

We recognized a net gain of RMB2.8 million in 2009 and RMB15.1 million in 2010. The net gain recognized in 2010 primarily reflected (i) RMB8.0 million in government grants in relation to our new and high-technology projects, (ii) RMB5.4 million in negative goodwill (or the difference between the consideration and fair value of net asset acquired) recognized in connection with our acquisition of 45% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. in September 2010, and (iii) RMB3.0 million in changes in the fair value for Series A convertible preferred shares. The net gain recognized in 2009 primarily reflected RMB7.7 million in government grants in relation to our new and high-technology projects, partially offset by a net loss of RMB3.6 million in exchange losses and RMB1.5 million on disposal of property, plant and equipment.

Finance Income

Our finance income decreased by RMB1.0 million, or 59.8%, from RMB1.7 million in 2009 to RMB0.7 million in 2010. Such decrease primarily reflected an initial recognition of interest-free related party borrowings using effective interest method in 2009 as well as a decrease in balances of bank deposits in 2010.

Finance Costs

Our finance costs increased by RMB10.8 million, or 54.7%, from RMB19.7 million in 2009 to RMB30.5 million in 2010. Such increase primarily reflected (i) an increase in interest expenses on our bank borrowings in 2010, and (ii) An amortization of the liability component of Series A convertible preferred shares using effective interest method.

Share of Results of Associates

We recognized share of losses of associates of RMB0.4 million in 2009, compared to a share of profits of associates of RMB1.3 million in 2010, primarily reflecting an increase in profit of Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.

Share of Results of Jointly Controlled Entities

Our share of losses of jointly controlled entities increased by RMB3.2 million, or 23.8%, from RMB13.5 million in 2009 to RMB16.8 million in 2010. The increase reflected the increase in losses incurred by Almansoori Hilong Petroleum Pipe Company as it was in the process of ramping up its operations during the same period.

Profit before Income Tax

As a result of the foregoing, our profit before income tax increased from RMB135.7 million in 2009 to RMB275.2 million in 2010.

Income Tax Expense

Our income tax expense increased by RMB19.6 million, or 76.2%, from RMB25.7 million in 2009 to RMB45.3 million in 2010. Such increase primarily reflected an increase in our profit before income tax. Our effective tax rate was approximately 18.9% in 2009 and 16.5% in 2010.

Profit for the Year

As a result of the foregoing, our net profit increased from RMB110.0 million in 2009 to RMB229.9 million in 2010.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue

Our revenue decreased by RMB694.7 million, or 40.8%, from RMB1,701.4 million in 2008 to RMB1,006.7 million in 2009. Such decrease primarily reflected a decrease in revenue from the drill pipes and related products segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment decreased by RMB742.7 million, or 58.9%, from RMB1,261.3 million in 2008 to RMB518.6 million in 2009. Such decrease primarily reflected a decrease in revenue derived from sales of drill pipes and related products in the international market and to a lesser extent, in the PRC market.

Revenue from sales of drill pipes and related products in the international market decreased by RMB525.2 million, or 81.1%, from RMB647.6 million in 2008 to RMB122.4 million in 2009. The decrease primarily reflected a 76.9% decrease in the volume from 17,120 tonnes in 2008 to 3,961 tonnes in 2009, and a 22.3% decrease in the average selling price from RMB37,829 per tonne in 2008 to RMB29,395 per tonne in 2009 of drill pipe products sold in the international market. The decrease in the sales volume primarily reflected a reduced level of capital spending by international oil and gas companies in drilling activities as a result of the significant fluctuation in and generally lower level of oil and gas prices in 2009, as well as the impact of the recent global financial crisis. The decrease in average selling price of the products sold to the international market primarily reflected a general decrease in oil and gas prices and related decrease in demand for drill pipe products in 2009.

Revenue from sales of drill pipes and related products in the PRC market decreased by RMB217.4 million, or 35.4%, from RMB613.6 million in 2008 to RMB396.2 million in 2009. This decrease primarily reflected a 48.3% decrease in the volume of drill pipe products sold in the PRC market from 21,900 tonnes in 2008 to 11,314 tonnes in 2009, which in turn reflected a reduced level of capital spending by PRC oil and gas companies as a result of the significant fluctuation and generally lower level of oil and gas prices in 2009.

Coating materials and services. Revenue from the coating materials and services segment increased by RMB19.1 million, or 4.6%, from RMB415.9 million in 2008 to RMB435.0 million in 2009. Such increase primarily reflected an increase in revenue from oil and gas line pipe coating services, partially offset by a decrease in revenue from drill pipe coating services. The increase in revenue from oil and gas line pipe coating services primarily reflected (i) revenue derived from our sales in 2009 related to the West-East Natural Gas Transmission Project, a major oil and gas line pipe coating project in China to which we were engaged, and (ii) an increase in our capacity and utilization rate in providing line pipe coating services in 2009 coupled with a high demand for our services. The decrease in revenue from drill pipe coating services primarily reflected the decrease in level of capital spending by international oil and gas companies in drilling activities as a result of the significant fluctuation and the generally lower level of oil and gas prices in 2009, as well as the impact of the recent global financial crisis.

Oilfield services. Revenue from the oilfield services segment increased by RMB28.8 million from RMB24.2 million in 2008 to RMB53.0 million in 2009. Such increase primarily reflected revenue derived from two projects in Kazakhstan and one project in Ecuador. Our revenue from this operating segment in 2008 was primarily derived from trading of drilling-related products. In 2009, we purchased three additional drilling rigs which significantly increased our capacity in provision of oilfield services.

Cost of Sales/Services

Our cost of sales decreased by RMB314.5 million, or 33.6%, from RMB935.6 million in 2008 to RMB621.1 million in 2009. Such decrease primarily reflected a decrease in cost of raw materials incurred in connection with our drill pipes and related products segment in 2009, reflecting (i) the decrease in procurement volume of raw materials for our drill pipe and related products segment, which in turn reflected a decrease in sales generated from this segment, (ii) a general decrease in the market prices of steel in the PRC, and (iii) the commencement of our procurement of steel pipes from our associated entity, Nantong Hilong Steel Pipe Co., Ltd. in the second half of 2009.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit decreased by RMB380.2 million, or 49.6%, from RMB765.8 million in 2008 to RMB385.6 million in 2009. Our gross margin decreased from 45% in 2008 to 38.3% in 2009, primarily reflecting a decrease in gross margin derived from the drill pipes and related products segment, partially offset by an increase in the gross margin derived from the coating materials and services segment.

The gross margin of our drill pipes and related products segment decreased from 45.6% in 2008 to 31.9% in 2009, reflecting that (i) a significant portion of our cost of sales, including staff costs, utility charges and depreciation of fixed assets remained relatively stable, despite the decrease in sales in 2009 as a result of the impact of the recent global financial crisis and the significant fluctuation in oil, generally lower level of oil and gas prices in 2009; and (ii) the average selling price of drill pipe products sold in the international market decreased in 2009.

The gross margin of our coating materials and services segment increased from 44.4% in 2008 to 46.6% in 2009. The increase primarily reflected the increase in gross margin from the oil and gas line pipe coating service business, which in turn reflected a general decrease in the price of polyethylene, the major raw material for oil and gas line pipe coating as a result of the lower international oil and gas prices in 2009 compared to 2008.

The gross margin of our oilfield service segment increased from 27.3% in 2008 to 32.1% in 2009. Our revenue from this operating segment in 2008 was primarily derived from trading of drilling-related products, which yielded a relatively lower gross margin compared to our drilling and other oilfield services provided in 2009.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB6.1 million, or 6.9%, from RMB88.8 million in 2008 to RMB82.7 million in 2009. Such decrease primarily reflected a decrease in sales and marketing expenses and transportation expenses incurred in connection with our drill pipes and related products segment, which is associated with the decrease in sales. Such decrease was partially offset by an increase in staff related expenses in our drill pipe and related products segment, reflecting our increasing efforts of sales and marketing activities in this operating segment.

Administrative Expenses

Our administrative expenses increased by RMB28.6 million, or 26.1%, from RMB109.5 million in 2008 to RMB138.1 million in 2009. Such increase primarily reflected (i) an increase in the staff related expenses related to our oilfield services segment and oil and gas line pipe coating services segment, reflecting the increase in revenue from these segments in 2009, (ii) an increase in technological consulting expenses incurred in connection with our drill pipes and related products segment. Such increase was partially offset by a decrease in provision for impairment of trade receivables from 2008 to 2009.

Other Income

We incurred other income of RMB7.3 million in 2008, reflecting gains on remeasuring our existing equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and Shanghai Boteng Welding Consumable Co., Ltd. held upon our acquisition of controlling interest in these entities in 2008.

Other Gains—Net

We recognized a net gain of RMB0.9 million in 2008, compared to a net gain of RMB2.8 million in 2009. The net gain recognized in 2009 primarily reflected RMB7.7 million in government grants in relation to our new/high-technology projects which was partially offset by RMB3.6 million in exchange losses and RMB1.5 million in net loss on disposal of property, plant and equipment. The net gain recognized in 2008 primarily reflected RMB2.0 million in government grants in relation to our new/high-technology projects, partially offset by RMB0.6 million in net loss on disposal of property, plant and equipment and RMB0.5 million in donation expenses.

Finance Income

Our finance income decreased by RMB0.1 million, or 5.6%, from RMB1.8 million in 2008 to RMB1.7 million in 2009. Such decrease primarily reflected a decrease in initial recognitions of interest-free related party borrowings using effective interest method in 2009.

Finance Costs

Our finance costs increased by RMB4.5 million, or 29.6%, from RMB15.2 million in 2008 to RMB19.7 million in 2009. Such increase primarily reflected an increase in interest expenses on our bank borrowings in 2009.

Share of Results of Associates

Our share of profits of associates was RMB1.0 million in 2008. Our share of losses of associates was RMB0.4 million in 2009.

Share of Results of Jointly Controlled Entities

Our share of losses of jointly controlled entities increased from RMB1.6 million in 2008 to RMB13.5 million in 2009, reflecting an increase in losses incurred by Almansoori Hilong Petroleum Pipe Company as it was in the process of ramping up its operations during the same periods.

Profit before Income Tax

As a result of the foregoing, our profit before income tax decreased by RMB425.9 million, or 75.8%, from RMB561.6 million in 2008 to RMB135.7 million in 2009.

Income Tax Expense

Our income tax expense decreased by RMB40.4 million, or 61.1%, from RMB66.1 million in 2008 to RMB25.7 million in 2009. Such decrease primarily reflected a decrease in our profit before income tax. Our effective tax rate was approximately 11.8% in 2008 and 18.9% in 2009.

Profit for the Year

As a result of the foregoing, our net profit decreased by RMB385.4 million, or 77.8%, from RMB495.4 million in 2008 to RMB110.0 million in 2009.

DISCUSSION OF OUR STATEMENT OF FINANCIAL POSITION ITEMS

Inventories

Our 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 components of our inventory balances as of the dates indicated as well as our turnover of average inventory for the periods indicated.

	As of and for the year ended December 31,		
	2008	2009	2010
	(In thousands of RMB, except number of days)		
Raw materials	133,142	136,377	135,118
Work in progress	70,872	33,332	54,581
Finished goods	118,341	157,001	166,791
Packing materials	353	521	452
Low value consumables	4,923	5,951	8,580
Total	**327,631**	**333,182**	**365,522**
Turnover days of inventory (in days)(1)	103	194	160

(1) Turnover day of inventory for a year equals average inventory divided by total cost of sales/services and then multiplied by 365.25 for each of years ended December 31, 2008, 2009 and 2010. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase in inventory turnover days from 2008 to 2009 reflected our high level of inventory balance as of December 31, 2009 compared to December 31, 2008, coupled with the decrease in recognized cost of sales associated with a decrease in sales in 2009. Our inventory remained at a relatively high level as of December 31, 2009, reflecting a significant decrease in sales since the last quarter of 2008, which in turn reflected, the onset of global financial crisis and the significant fluctuations in international oil and gas prices after July 2008. The decrease in inventory turnover days from 2009 to 2010 primarily reflected an increase in recognized cost of sales associated with an increase in sales in 2010. As of February 28, 2011, RMB132.7 million, or 33.0% of inventories recorded as of December 31, 2010 have been utilized.

In 2008, we recognized losses of RMB 30.0 million in respect of write-down of inventories to their net realizable value, which primarily reflected the decrease in realizable value of inventories which we prepared prior to the market downturn in August 2008 in anticipation of orders for premium drill pipe products, and a combination of a significant decrease in market price of and lower demand for premium drill pipe products during the downturn. The write-down of inventories also reflected the cancellation of orders for approximately 1,783 tonnes of drill pipes by customers in North America region and Russia and Central Asia region which were affected by the financial crisis. We did not seek contractual or other legal remedies for such order cancellations as we had maintained sound business relationships with these customers and the cancellation was the result of unexpected market turmoil beyond either party's control. Substantially all of such inventories prepared for the cancelled orders remained unutilized as of February 28, 2011, as we expect the demand for such inventories to increase in the near future.

We depend upon our forecasts of demand for our products and services to make decisions regarding investments of our resources and production levels of our products. See "Risk Factors—Risks Relating to Our Business and Industry—Any failure in accurately predicting product demand may result in high inventory balances and inventory turnover days, which could materially and adversely affect our business, financial condition and results of operations."

Trade and Other Receivables

Our 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 our trade and other receivables outstanding as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Trade receivables			
Due from third parties	445,570	541,731	710,648
Due from related parties	58,601	80,277	55,025
Less: Provision for impairment of receivables	(11,442)	(11,522)	(11,033)
Trade receivables—net	492,729	610,486	754,640
Other receivables			
Due from third parties	35,406	31,440	39,199
Due from related parties	127,694	211,325	297,072
Other receivables	163,100	242,765	336,271
Bills receivable	53,314	16,370	5,727
Prepayments	103,104	49,545	83,110
Total	**812,247**	**919,166**	**1,179,748**

Trade Receivables Due From Third Parties and Related Parties

Our net trade receivables represent receivables from the sales of products and provision of services to third party customers and our related parties, less impairment of receivables. The following table sets forth an aging analysis of our trade receivables due from third party and related parties as of the dates and turnover days of our gross trade receivables for the periods indicated.

	As of and for the year ended December 31,		
	2008	2009	2010
	(In thousands of RMB, except number of days)		
Within 90 days	229,095	329,987	444,062
Over 90 days and within 180 days	38,390	65,533	202,662
Over 180 days and within 360 days	167,814	104,964	50,981
Over 360 days and within 720 days	68,866	100,031	37,369
Over 720 days	6	21,493	30,599
Total	**504,171**	**622,008**	**765,673**
Turnover days of trade receivables(1)	85	200	187

(1) Turnover day of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365.25 for each of years ended December 31, 2008, 2009 and 2010. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

Our trade receivables turnover days were significantly higher in 2009 compared to 2008, reflecting (i) higher trade receivables balance in trade receivables resulting from the significant longer period of time our customers needed to settle their trade receivables, due to the tightening liquidity available to our customers affected by the global financial crisis and significant decreases in oil and gas prices in 2009, and (ii) a significant decrease in sales in 2009 compared to 2008. The average credit period we generally agree to with our third party customers is between 30 to 270 days. As of December 31, 2008, 2009 and 2010, trade receivables of RMB263.6 million, RMB280.5 million and RMB310.6 million, representing 52.3%, 45.1% and 40.6%, respectively, of our trade receivables before impairment remained unpaid beyond the allowed credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with our Company or due from our related party entities. As of 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 during the Track Record Period. We made provisions for impairment of trade receivables of RMB10.9 million and RMB0.1 million in 2008 and 2009, respectively. The significantly higher level of provisions in 2008 reflected the impact of global financial crisis upon certain of our international customers.

As of December 31, 2008, 2009 and 2010, trade receivables due from (i) our associated entities in which we do not hold controlling interest and (ii) our jointly-controlled entities collectively represented 23.1%, 59.4% and 90.1%, respectively, of our total trade receivables due from related parties. These receivable amounts primarily reflected (i) amounts due from Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd for our sale of coating materials; (ii) amounts due from Nantong Hilong Steel Pipe Co., Ltd for our sale of steel components; (iii) amounts due from Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd for our sale of coating equipments; and (iv) amounts due from Almansoori Hilong Petroleum Pipe Company for our sale of drill pipe components. As of the dates indicated and as of the Latest Practicable Date, we believe that there had been no material adverse change in these related parties' credit history affecting the collectibility of these trade receivables balances due from related parties. The remaining receivables due from related parties primarily represented amounts due from entities controlled by our Controlling Shareholders, which primarily reflected amounts due from (i) Beijing Huashi Hilong Oil Investment Co., Ltd. for our sale of hardbanding products, and (ii) Hilong USA, LLC. for our sale of drill pipe. See Note 36 to the Combined Financial Statements as set forth in the Accountant's Report in Appendix I of this prospectus for more information regarding our historical related party transactions during the Track Record Period. Such trade receivables due from entities controlled by our Controlling Shareholders were fully settled in February 2011.

As of February 28, 2011, we settled RMB220.9 million, or 29.3% of the trade receivables which were outstanding as of December 31, 2010. Of trade receivables that were outstanding and due over 360 days as of December 31, 2010, RMB9.5 million, or 16.7%, have been settled as of February 28, 2011. The remaining unsettled portion of trade receivables were mainly attributable to customers with sound credit history, good business relationship and strong bargaining power against us on the timing of receivable settlements. Based on our past experience, we believe that no additional provision for impairment is necessary in respect of these balances as there has not been any material adverse change in credit quality of these customers affecting the collectibility of the balances.

Other receivables

Our other receivables primarily consist of other receivables due from related party, receivables due from minority shareholders, staff advance and value added tax refund. The following table sets forth the components of our other receivables outstanding as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Due from related party	127,694	211,325	297,072
Staff advance	18,705	18,536	8,349
Value added tax refund	11,466	223	21,693
Others	5,235	12,681	9,157
Total	**163,100**	**242,765**	**336,271**

Other receivables due from related parties primarily include amounts due from entities controlled by our Controlling Shareholders. As of December 31, 2008, 2009 and 2010, 84.1%, 89.9% and 76.5%, respectively, of other receivables due from related parties were those due from entities controlled by our Controlling Shareholders. These amounts primarily represent payments collected by Huashi Hailong not yet paid to us. See "Business—Customers." All such other receivables due from entities controlled by our Controlling Shareholders were settled on March 2, 2011.

Our staff advance represents cash advances to our staff for their travel expenses. Value added tax refund recognized as of December 31, 2008 and 2010 represented the refund receivable in connection our export of drilling equipments for our oilfield services segment.

Others

The higher balance of bills receivable balance as of December 31, 2008 reflected our higher revenue generated in 2008. As of December 31, 2008, 2009 and 2010, the aging of our bills receivable was within 180 days, which is consistent with their credit term.

Prepayments represent our prepayments made in connection with procurement of raw material. The lower balance of prepayments as of December 31, 2009 compared to December 31, 2008 and 2010 reflected our lower level of production activities due to a decrease in demand for our products as a result of the lower oil and gas prices and the impact of global financial crisis in 2009.

Trade and Other Payables

Our 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 our trade and other payables outstanding as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Trade payables			
Due to third parties	261,239	141,924	239,797
Due to related parties	61,452	60,132	41,256
Total trade payables	322,691	202,056	281,053
Other payables			
Due to third parties	55,333	39,004	67,759
Due to related parties	96,412	189,707	319,301
Total other payables	151,745	228,711	387,060
Bills payable	85,226	90,300	98,176
Staff salaries and welfare payables	9,497	12,173	10,098
Advance from customers	50,790	56,886	96,084
Interest payable	580	423	475
Accrued taxes other than income tax	2,134	23,026	23,820
Dividend payables	94,073	45,513	51,852
Others	8,464	3,696	4,804
Total	**725,200**	**662,784**	**953,422**

Trade Payables Due To Third Parties and Related Parties

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

	As of and for the year ended December 31,		
	2008	2009	2010
	(In thousands of RMB, except number of days)		
Within 90 days	171,371	57,372	195,316
Over 90 days and within 180 days	19,433	24,127	26,855
Over 180 days and within 360 days	90,153	46,920	1,694
Over 360 days and within 720 days	37,160	39,242	5,411
Over 720 days	4,574	34,395	51,777
Total	**322,691**	**202,056**	**281,053**
Turnover days of trade payables(1)	106	154	110

(1) Turnover day of trade payables for a year equals average trade payables divided by cost of sales and then multiplied by 365.25 for each of years ended December 31, 2008, 2009 and 2010. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The decrease in balance of trade payables due to third parties from December 31, 2008 to December 31, 2009 reflected a decrease in our level of procurement of raw materials in 2009. The increase in balance of trade payables due to third parties from December 31, 2009 to December 31, 2010 reflected our increase in purchase of drilling rig and related equipments. The increase in trade payables turnover days from 2008 to 2009 primarily reflected a decrease in cost of sales recognized in 2009 associated with the decrease in sales compared to 2008, coupled with the increase in purchase of drilling rigs in 2009. The decrease in trade payables turnover days from 2009 to 2010 primarily reflected an increase in recognized cost of sales associated with an increase in sales in 2010.

As of December 31, 2008, 2009 and 2010, trade payables due to (i) our associated entities in which we do not hold controlling interest and (ii) our jointly-controlled entities collectively represented 15.8%, 0.8% and 8.2%, respectively, of our total trade payables due to related parties. These payable amounts primarily reflected (i) amounts due to CNOOC Tube-Cote Tianjin Pipe Co., Ltd. for our purchase of coating services; (ii) amounts due to Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. for our purchase of coating services; and (iii) amounts due to Nantong Hilong Steel Pipe Co., Ltd for our purchase of steel pipes. The remaining payables due to related party represented payables due to entities controlled by our Controlling Shareholders, which primarily represented amount due to Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. as a result of our purchase of hardbanding products. See Note 36 to the Combined Financial Statements as set forth in the Accountant's Report in Appendix I of this prospectus for more information regarding our historical related party transactions during the Track Record Period. Such trade payables due to entities controlled by our Controlling Shareholders were fully settled in February 2011.

Other Payables

Our other payables primarily consist of other payables due to third parties and other payables due to related parties. Other payables due to third parties primarily represented our accrued selling expenses and transportation expenses payable. Other payables due to related parties primarily represented our payables due to Hailong International (L) Ltd. and Huashi Hailong two entities controlled by our Controlling Shareholders, as a result of our corporate restructuring. All such other payables due to entities controlled by our Controlling Shareholders were settled in February 2011, other than RMB160.0 million of the payables due to Hailong International, which are expected to be settled using a portion of the proceeds from the Global Offering.

Others

The increase in balance of advances from customers as of December 31, 2010 compared to December 31, 2009 reflected the increase in sales of drill pipe products.

Net Current Assets

Our current assets primarily consist of trade and other receivables, inventories, cash and cash equivalents and restricted cash. Our current liabilities primarily consist of trade and other payables, borrowings, deferred revenue and current income tax liabilities. As of December 31, 2008, 2009 and 2010, our net current assets amounted to RMB365.9 million, RMB316.3 million and RMB73.8 million, respectively.

Our net current assets decreased from RMB316.3 million as of December 31, 2009 to RMB73.8 million as of December 31, 2010, primarily reflecting increases in trade and other payables and current portion of our indebtedness during the same period. The increase in trade and other payables primarily reflected (i) an increase in other payables due to Hailong International as a result of our corporate restructuring, and (ii) an increase in trade payables due to independent third parties as a result of our increase in purchase of drilling rig and related equipments in connection with the development of our oilfield services business. See "—Discussion of Our Statement of Financial Position Items—Trade and Other Payables." The increase in current portion of our indebtedness primarily reflected (i) our issuance of Series A convertible preferred shares in August 2010, and (ii)our bank borrowing of HK$156 million from Standard Chartered Bank (Hong Kong) Limited by the end of 2010. See "—Indebtedness."

The following table sets forth our current assets and current liabilities as of February 28, 2011:

	As of February 28, 2011
Current Assets	
Inventories	376,375
Trade and other receivables	1,192,634
Restricted cash	15,100
Cash and cash equivalents	107,833
Total	1,691,942
Current Liabilities	
Deferred revenue	405
Trade and other payables	870,137
Current income tax liabilities	8,736
Derivative financial instruments	133
Borrowings	780,542
Total	1,659,953
Net Current Assets	31,989

We have not in the past experienced any difficulties in renewing our bank facilities upon maturity or expiration, nor have we defaulted on any bank borrowings. We do not foresee any immediate repayment requirement for our bank borrowings or withdrawal or reduction in banking facilities on short notice that could have a material adverse impact upon our liquidity and net current assets position. In addition, we expect that our net current assets to increase substantially following the completion of the Global Offering. We believe that our cash-on-hand, cash generated from operating activities and additional bank borrowings, if necessary, will be adequate to finance our existing operations and meet the capital requirements for our future plans.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Working Capital

To date, our operations have primarily been financed through cash generated from operating activities and bank borrowings. Our cash expenditures primarily consist of funding of our working capital needs, acquisition of property, plant and equipment, repayment of bank borrowings and acquisition of subsidiaries in connection with our corporate restructuring and Reorganization in 2010. As of December 31, 2010, we had RMB246.9 million in cash and cash equivalents, compared to RMB141.6 million as of December 31, 2009 and RMB220.5 million as of December 31, 2008.

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

	For the year ended December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Net cash from (used in) operating activities	259,568	60,742	163,341
Net cash used in investing activities	(249,447)	(199,899)	(165,862)
Net cash (used in) from financing activities	143,267	61,145	108,391
Net increase (decrease) in cash and cash equivalents	153,388	(78,012)	105,870
Cash and cash equivalents at beginning of year	68,190	220,468	141,603
Cash and cash equivalents at end of year	220,468	141,603	246,936

Operating Activities

Net cash provided by operating activities in 2010 was RMB163.3 million, which was primarily attributable to (i) net profit of RMB229.9 million, (ii) increase in trade and other payables of RMB171.1 million and (iii) adjustment for depreciation of property, plant and equipment of RMB55.7 million; partially offset by an increase in trade and other receivables of RMB260.6 million.

Net cash provided by operating activities in 2009 was RMB60.7 million, which was primarily attributable to a net profit of RMB110.0 million and depreciation of property, plant and equipment of RMB46.5 million, partially offset by an increase in trade and other receivables of RMB106.9 million.

Net cash provided by operating activities in 2008 was RMB259.6 million, which was primarily attributable to (i) net profit of RMB495.4 million and (ii) an increase in trade and other payables of RMB67.2 million; partially offset by (i) an increase in trade and other receivables of RMB258.2 million and (ii) increase in inventories of RMB128.2 million.

Investing Activities

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

Net cash used in investing activities in 2009 was RMB199.9 million, which primarily reflected RMB196.1 million in purchase of property, plant and equipment.

Net cash used in investing activities in 2008 was RMB249.4 million, which primarily reflected RMB210.6 million in purchase of property, plant and equipment.

Financing Activities

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

Net cash generated from financing activities in 2009 was RMB61.1 million, primarily reflecting RMB548.5 million in proceeds from borrowings, partially offset by RMB422.3 million in repayments of borrowings and RMB63.8 million in dividends paid.

Net cash generated from financing activities in 2008 was RMB143.3 million, primarily reflecting (i) RMB363.7 million in proceeds from borrowings, and (ii) RMB48.3 million in our Controlling Shareholder's capital contributions; partially offset by (i) RMB223.2 million in repayments of borrowings, and (ii) RMB40.2 million in dividends paid.

CAPITAL EXPENDITURE

Our capital expenditures were RMB210.6 million, RMB196.1 million and RMB144.7 million in 2008, 2009 and 2010, respectively. Our capital expenditures in 2008 were primarily made in connection with the construction of our headquarters in Shanghai and our production facilities and equipments for drill pipes and related products segment. Our capital expenditures in 2009 were primarily made in connection with our purchase of drilling rigs for our oilfield services segment. Our capital expenditures in 2010 were primarily made in connection with our purchase of drilling rig and related equipments and construction of production facilities in Shanghai.

INDEBTEDNESS

As of December 31, 2010, we had outstanding indebtedness of RMB804.6 million. The following table sets forth components of our indebtedness as of the dates indicated.

	As of December 31,			As of February 28,
	2008	2009	2010	2011
	(In thousands of RMB)			
Non-current				
Bank borrowing—unsecured	15,300	10,600	5,900	—
Related party borrowing	5,112	11,796	10,565	10,450
Less: Current portion of non-current borrowing	(4,700)	(10,318)	(15,265)	(10,450)
Current				
Bank borrowings—secured	159,519	264,000	401,758	400,654
Bank borrowing—unsecured	132,000	152,000	217,000	197,900
Series A convertible preferred shares	—	—	169,401	171,538
Current portion of non-current borrowing	4,700	10,318	15,265	10,450
Total	**311,931**	**438,396**	**804,624**	**780,542**

Pursuant to a facility agreement dated December 27, 2010, we obtained a bank borrowing of HK$156 million with an interest rate of HIBOR plus 5% from Standard Chartered Bank (Hong Kong) Limited, an affiliate of Standard Chartered. Hilong Group Limited, one of our Controlling Shareholders, pledged 200,000 Shares of our Company (representing 20% of our issued share capital before Capitalization Issue and the Global Offering) to the lender in connection with such bank borrowing, which pledge will be released prior to the Listing Date. In addition, we expect to repay such bank borrowing using the proceeds from the Global Offering. See "Use of Proceeds."

Our Directors confirm that, as of February 28, 2011, the most recent practicable date for the purposes of this confirmation, there has been no change in our indebtedness since December 31, 2010 other than disclosed above.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

We lease various buildings under non-cancellable operating lease agreements. The following table sets forth the future aggregate minimum lease payments under such operating leases as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(In thousands of RMB)		
No later than 1 year	3,662	3,544	4,176
Later than 1 year and no later than 3 years	4,059	3,789	5,249
Later than 3 years	13,504	11,723	10,020
Total	**21,225**	**19,056**	**19,445**

As of December 31, 2008, 2009 and 2010, we did not have any significant contingent liability. As of February 28, 2011, the most recent practicable date for the purposes of this confirmation, we did not have any material change in our contractual obligations or contingent liabilities since December 31, 2010. Except as disclosed in this prospectus, as of the Latest Practicable Date, and other than intra-group liabilities, we did not have any outstanding loan capital, bank overdrafts, liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

CAPITAL COMMITMENTS

Our capital commitments as of December 31, 2008 and 2009 and 2010 primarily related to the purchases of property, plant and equipment. The following table sets forth the aggregate amounts of capital commitments as of the dates indicated.

	As of December 31,		
	2008	2009	2010
	(in thousands of RMB)		
Property, plant and equipment	165,732	143,109	65,918

OFF-BALANCE SHEET AGREEMENT

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are often established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our major financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. The risk associated with these financial instruments and the policies on how we mitigate these risks are set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign Exchange Risk

We mainly operate in the PRC and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi into foreign currencies, including the U.S. dollar, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under this policy, the 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 25.4% appreciation of the Renminbi against the US dollar from July 21, 2005 to December 31, 2010. 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 USD. We have not entered into any hedge transaction against any fluctuation in foreign currency. We may consider entering into currency hedging transactions to further manage our exposure towards fluctuations in exchange rates. However, the effectiveness of such transactions may be limited. See "Risk Factors—Risks Relating to the PRC—Fluctuations in exchange rate may have a material adverse effect on your investment." In 2008, 2009 and 2010, our revenue denominated in U.S. dollar represented 36.1%, 12.2% and 36.0%, respectively, of our total revenue.

As of December 31, 2008, 2009 and 2010, if USD had strengthened or weakened by 10% against Renminbi, assuming all other relevant variables remained unchanged, our net profit for each year would have changed primarily as a result of foreign exchange gains/losses on translation of RMB and USD denominated cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings. The following table sets forth the effect of such change:

	Year ended December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Year ended:			
Net profit increase/(decrease)			
Strengthened 10%	6,082	(3,053)	(2,143)
Weakened 10%	(6,082)	3,053	2,143

To the extent that we need to convert U.S. dollar we receive from the Global Offering into Renminbi for our operations, appreciation of the Renminbi against the USD would reduce the Renminbi amount we expect to receive upon such conversion.

Interest Rate Risk

We do not have any significant interest-bearing assets other than cash and cash equivalents and restricted cash. Our income and operating cash flows are substantially independent of changes in market interest rates. Our interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose us to cash flow interest-rate risk. Borrowings obtained at fixed rates expose us to fair value interest-rate risk. We have not entered into any hedge transaction against such cash flow and fair value interest-rate risk. As of December 31, 2008, 2009 and 2010, if the interest rate on borrowings had been higher or lower by 5%, the net profit for each year would have changed primarily as a result of higher or lower interest expenses on floating rate borrowings.

The following table sets forth the details of such changes:

	Year ended December 31,		
	2008	2009	2010
	(In thousands of RMB)		
Year ended:			
Net profit increase/(decrease)			
Higher 5%	(1,305)	(1,629)	(1,068)
Lower 5%	1,305	1,629	1,068

Credit Risk

As of December 31, 2008, 2009 and 2010, all of our cash and cash equivalents, including restricted cash, were deposited in major financial institutions in the PRC, which we believe are of high credit quality. We do not expect any losses from non-performance by these counterparties.

We have established policies to ensure that sales of products are made to customers with an appropriate credit history and we assess the credit worthiness and financial strength of our customers as well as considering prior dealing history with the customers and volume of sales. Our management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

Liquidity Risk

We seek to maintain sufficient cash and sources of funding through committed credit facility and to maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, we monitor rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. We expect to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions and proceeds from the Global Offering.

RECENT ACCOUNTING PRONOUNCEMENTS

Up to the date of the prospectus, the HKICPA has issued the following new standards, amendments and interpretations which are relevant to our operation but are not yet effective for the annual accounting period beginning January 1, 2011 and we have not early adopted these standards, amendments and interpretations:

	Effective for annual periods beginning on or after
HKAS 24 (Revised) Related party disclosures	January 1, 2011
HK(IFRIC)—Int 19 Extinguishing financial liabilities with equity instruments	January 1, 2011
Third improvements to Hong Kong Financial Reporting Standards (2010)	January 1, 2011
HKFRS 9 Financial Instruments	January 1, 2013

We are in the process of making assessments of the impact of these standards, amendments and interpretations on our financial statements in the initial application. The adoption of the above is not expected to have any material effect on our operating results or financial position.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, other than the pledge over Shares held by Hilong Group Limited in connection with our bank borrowing from Standard Chartered Bank (Hong Kong) Limited, which will be released prior to the Listing Date as disclosed in "—Indebtedness," there were no circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted net tangible assets as of December 31, 2010 amounted to approximately RMB1,585.3 million (approximately HK$1,863.1 million) (assuming an Offer Price of HK$2.89 per Offer Share, being the mid-point of the indicative Offer Price range). The unaudited pro forma adjusted net tangible assets information prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purposes only, and is presented to illustrate the effect of the Global Offering on our combined net tangible assets as of December 31, 2010 as if the Global Offering had taken place on such date. It was adjusted on the basis as described in Appendix II. See Appendix II to this prospectus.

PROPERTY VALUATION

The Property Valuer has valued our property interests as of February 28, 2011. See Appendix III to this prospectus. The table below sets forth the reconciliation of the net book value of our property interests as of December 31, 2010, as included in our audited combined financial statements in Appendix I to this prospectus, to the capital value of our property interests as of February 28, 2011, as included in the property valuation report in Appendix III to this prospectus:

	RMB in thousand
Net book value of property interests as of December 31, 2010 (audited)[1]	227,604
Movements from December 31, 2010 to February 28, 2011 (unaudited)	29,535
Net book value of property interests as of February 28, 2011 (unaudited)	257,139
Less: Net book value of properties—Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.[2] (unaudited)	(6,207)
Less: Net book value of land use right—Sichuan Hilong Petroleum Technology Co., Ltd.[3] (unaudited)	(4,758)
Valuation surplus	54,352
Capital value of property interests as of February 28, 2011[4]	300,526

(1) As of December 31, 2010, the net book value of property interests represented net book amount of buildings and facilities of RMB171,816 thousand and net book value of lease prepayments of RMB55,788 thousand. See Notes 7 and 8 to the Accountant's Report included in Appendix I to this prospectus.

(2) As of February 28, 2011, we incurred and recorded capital expenditure of RMB6.2 million for purposes of constructing the properties in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. Since the land use right to the related land is held by our joint venture partner as of February, 2011, no valuation was performed for such properties by the Property Valuer.

(3) As of February 28, 2011, we incurred and recorded capital expenditure of RMB4.8 million for purposes of obtaining the land use right with respect to a parcel of land at Sichuan Hilong Petroleum Technology Co., Ltd. Since we did not obtain the land use right to such land as of February 2011, no valuation was performed by the Property Valuer.

(4) Consisting of (i) RMB187,047 thousand in capital value of property interests with respect to properties with valid title certificates as of February 28, 2011, and (ii) RMB113,479 thousand in capital value of property interests with respect to properties without valid title certificates as of February 28, 2011. The Property Valuer attributed no commercial value to the properties without valid title certificates. However, for reference purpose, the Property Valuer is of the opinion that the capital value of the properties as of the date of valuation would be RMB113,479 thousand assuming all relevant title certificates have been obtained and the properties are freely transferable. For more information on such capital value, see (i) Note 4 to the Valuation Certificate of Property No. 1 (RMB57,970 thousand), (ii) Note 2 to the Valuation Certificate of Property No. 2 (RMB13,704 thousand), (iii) Note 3 to the Valuation Certificate of Property No. 3 (RMB254 thousand) and (iv) Note 2 to the Valuation Certificate of Property No. 4 (RMB41,551 thousand) included in property valuation report included in Appendix III to this prospectus.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to the Group, including the internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering, the Directors of the Company are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

As of December 31, 2010, the Company did not have any distributable reserves as it did not have any business other than investment holding and the Reorganization was not completed.

DIVIDENDS

We declared dividends in the amount of RMB108.3 million, RMB9.0 million and RMB10.0 million in 2008, 2009 and 2010, respectively.

We will not declare or pay any dividends other than from distributable profit attributable to equity holders. Our shareholders may approve the distribution of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as appear to our Directors to be justified by our profits and may also declare half yearly or at other intervals at a fixed rate if they are of the opinion that the profits available for distribution justify the payment of dividends.

The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our articles of association, the Companies Law, applicable laws and regulations and other relevant factors.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since December 31, 2010. Our Directors confirm that they have performed sufficient due diligence on us to ensure that, at the date of this prospectus, there has been no material adverse change in our financial position or prospects since December 31, 2010 and there is no event since December 31, 2010 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.