The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the director's of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Prince's Building
Central, Hong Kong

April 11, 2011

The Directors
Hilong Holding Limited

Morgan Stanley Asia Limited

Dear Sirs,

We report on the financial information (the "Financial Information") of Hilong Holding Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the combined balance sheets as at December 31, 2008, 2009 and 2010, the balance sheets of the Company as at December 31, 2008, 2009 and 2010, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended December 31, 2008, 2009 and 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. The Financial Information has been prepared by the directors of the Company and is set out in Section I to III below for inclusion in the prospectus of the Company dated April 11, 2011 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on October 15, 2008 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganization as described in Note 1(ii) of Section II headed "General information of the Group and reorganization" (the "Reorganization") below, which was completed on March 2, 2011, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries, associates and jointly controlled entities as set out in Note 37, Note 10 and Note 11 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristic as a Hong Kong incorporated private company.

All companies comprising the Group during the Relevant Periods have adopted December 31, as their financial year end date.

The statutory financial statements of the subsidiaries now comprising the Group, where there is a statutory audit requirement, were not audited by us but by other auditors as set out in Note 37 of Section II below.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon and on the basis set out in Note 2 of Section II below.

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the basis of preparation set out in Note 2 of Section II and the accounting policies set out in Note 3 of Section II below which are in conformity with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purposes of this report and presented on the basis set out in Note 2 of Section II below, a true and fair view of the state of affairs of the Company as at December 31, 2008, 2009 and 2010, and of the combined state of affairs of the Group as at December 31, 2008, 2009 and 2010 and of the Group's combined results and cash flows for the Relevant Periods then ended.

I FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group prepared by the directors of the Company as at December 31, 2008, 2009 and 2010 and for each of the years ended December 31, 2008, 2009 and 2010, presented on the basis set out in Note 2 of Section II below:

Combined Balance Sheets

	Note	As at December 31, 2008	2009	2010
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	7	470,708	608,014	733,292
Lease prepayments	8	46,698	45,691	55,788
Intangible assets	9	12,190	12,030	11,780
Investments in associates	10	64,135	63,782	78,811
Investments in jointly controlled entities	11	19,203	15,509	6,279
Deferred income tax assets	12	10,539	24,265	37,551
Other long-term assets	13	5,513	625	219
		628,986	769,916	923,720
Current assets				
Inventories	14	327,631	333,182	365,522
Trade and other receivables	15	812,247	919,166	1,179,748
Restricted cash	16	33,930	23,997	52,570
Cash and cash equivalents	16	220,468	141,603	246,936
		1,394,276	1,417,948	1,844,776
Total assets		2,023,262	2,187,864	2,768,496
EQUITY				
Capital and reserve attributable to equity holders of the Company				
Share capital	17	—	—	811
Other reserve	18	196,498	211,007	(82,328)
Retained earnings		578,368	619,343	776,116
Currency translation differences		122	(9,002)	(11,803)
		774,988	821,348	682,796
Non-controlling interests		153,837	191,839	222,813
Total equity		928,825	1,013,187	905,609

Combined Balance Sheets

	Note	As at 31 December 2008	2009	2010
		RMB'000	RMB'000	RMB'000
LIABILITIES				
Non-current liabilities				
Borrowings	19	15,712	12,078	1,200
Deferred income tax liabilities	12	50,357	60,991	77,061
Deferred revenue	20	—	—	13,650
		66,069	73,069	91,911
Current liabilities				
Deferred revenue	20	1,287	5,574	405
Trade and other payables	21	725,200	662,784	953,422
Current income tax liabilities		5,662	6,932	13,592
Derivative financial instruments	19(b)	—	—	133
Borrowings	19	296,219	426,318	803,424
		1,028,368	1,101,608	1,770,976
Total liabilities.		1,094,437	1,174,677	1,862,887
Total equity and liabilities		2,023,262	2,187,864	2,768,496
Net current assets		365,908	316,340	73,800
Total assets less current liabilities.		994,894	1,086,256	997,520

Balance Sheets

	Note	As at December 31, 2008	2009	2010
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary	37	—	—	—
Current assets				
Trade and other receivables	36(c)	—	—	264,949
Cash and cash equivalents	16	—	—	33,728
		—	—	298,677
Total assets		—	—	298,677
EQUITY				
Capital and reserve attributable to equity holders of the Company				
Share capital	17	—	—	811
Accumulated losses		—	—	(4,408)
Total equity		—	—	(3,597)
LIABILITIES				
Current liabilities				
Trade and other payables	21	—	—	3,982
Derivative financial instruments	19(b)	—	—	133
Borrowings	19	—	—	298,159
		—	—	302,274
Total liabilities		—	—	302,274
Total equity and liabilities		—	—	298,677
Net current liabilities		—	—	(3,597)
Total assets less current liabilities		—	—	(3,597)

Combined Income Statements

	Note	Year ended December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000
Revenue	6	1,701,380	1,006,656	1,356,462
Cost of sales	22	(935,615)	(621,083)	(799,856)
Gross profit		765,765	385,573	556,606
Selling and marketing expenses	22	(88,820)	(82,684)	(79,026)
Administrative expenses	22	(109,503)	(138,103)	(172,210)
Other income	25	7,273	—	—
Other gains-net	26	853	2,760	15,085
Operating profit		575,568	167,546	320,455
Finance income		1,830	1,743	700
Finance costs		(15,177)	(19,699)	(30,476)
Finance costs-net	27	(13,347)	(17,956)	(29,776)
Share of results of:				
—Associates	10	999	(353)	1,258
—Jointly controlled entities	11	(1,646)	(13,532)	(16,756)
Profit before income tax		561,574	135,705	275,181
Income tax expense	28	(66,142)	(25,689)	(45,275)
Profit for the year		495,432	110,016	229,906
Profit attributable to:				
Equity holders of the Company		437,290	60,627	178,369
Non-controlling interests		58,142	49,389	51,537
		495,432	110,016	229,906
Dividends	30	108,255	9,001	10,000

Combined Statements of Comprehensive Income

	Year ended December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Profit for the year	495,432	110,016	229,906
Other comprehensive income:			
Currency translation differences	87	2,210	(5,115)
Amount previously recognized in other comprehensive income in respect of a subsidiary disposed in 2010	—	—	(48)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary	—	(11,334)	2,314
Other comprehensive income for the year, net of tax	87	(9,124)	(2,849)
Total comprehensive income for the year	495,519	100,892	227,057
Attributable to:			
Equity holders of the Company	437,377	51,503	175,520
Non-controlling interests	58,142	49,389	51,537
	495,519	100,892	227,057

Combined Statements of Changes in Equity

	Note	Capital and reserves attributable to equity owners						
		Share capital	Other reserve	Retained earnings	Cumulative translation differences	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2008		—	174,552	294,159	35	468,746	68,670	537,416
Comprehensive income								
Profit for the year		—	—	437,290	—	437,290	58,142	495,432
Other comprehensive income								
Currency translation differences		—	—	—	87	87	—	87
Total comprehensive income for the year		—	—	437,290	87	437,377	58,142	495,519
Appropriation to statutory reserve	18(1)	—	44,826	(44,826)	—	—	—	—
Transactions with owners								
Dividends declared	30	—	—	(108,255)	—	(108,255)	—	(108,255)
Dividends to non-controlling interests by subsidiaries		—	—	—	—	—	(25,947)	(25,947)
Non-controlling interests arising from business combination	34	—	—	—	—	—	31,572	31,572
Non-controlling interests' contribution to the Group		—	—	—	—	—	21,400	21,400
Capital increase to subsidiaries by their then equity owners	18(2)	—	48,281	—	—	48,281	—	48,281
Consideration paid to the then equity holders for acquisition of subsidiaries under common control	18(2)	—	(71,161)	—	—	(71,161)	—	(71,161)
As at December 31, 2008		—	196,498	578,368	122	774,988	153,837	928,825
As at January 1, 2009		—	196,498	578,368	122	774,988	153,837	928,825
Comprehensive income								
Profit for the year		—	—	60,627	—	60,627	49,389	110,016
Other comprehensive income								
Currency translation differences		—	—	—	2,210	2,210	—	2,210
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		—	—	—	(11,334)	(11,334)	—	(11,334)
Total comprehensive income for the year		—	—	60,627	(9,124)	51,503	49,389	100,892
Appropriation to statutory reserve	18(1)	—	10,651	(10,651)	—	—	—	—
Transactions with owners								
Dividends declared	30	—	—	(9,001)	—	(9,001)	—	(9,001)
Dividends to non-controlling interests by subsidiaries		—	—	—	—	—	(17,627)	(17,627)
Non-controlling interests' contribution to the Group		—	—	—	—	—	6,240	6,240
Capital increase to subsidiaries by their then equity owners	18(2)	—	3,858	—	—	3,858	—	3,858
As at December 31, 2009		—	211,007	619,343	(9,002)	821,348	191,839	1,013,187

Combined Statements of Changes in Equity

	Note	Capital and reserves attributable to equity owners						
		Share capital	Other reserve	Retained earnings	Cumulative translation differences	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2010		—	211,007	619,343	(9,002)	821,348	191,839	1,013,187
Comprehensive income								
Profit for the year		—	—	178,369	—	178,369	51,537	229,906
Other comprehensive income								
Currency translation differences		—	—	—	(5,115)	(5,115)	—	(5,115)
Amount previously recognized in other comprehensive income in respect of a subsidiary disposed in 2010	35	—	(48)	—	—	(48)	—	(48)
Exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign subsidiary		—	—	—	2,314	2,314	—	2,314
Total comprehensive income for the year		—	(48)	178,369	(2,801)	175,520	51,537	227,057
Appropriation to statutory reserve	18(1)	—	11,596	(11,596)	—	—	—	—
Transactions with owners								
Share capital issued and paid	17	811	—	—	—	811	—	811
Dividends declared	30	—	—	(10,000)	—	(10,000)	—	(10,000)
Dividends to non-controlling interests by subsidiaries		—	—	—	—	—	(25,997)	(25,997)
Non-controlling interests' contribution to the Group		—	—	—	—	—	9,951	9,951
Disposal of a subsidiary	35	—	—	—	—	—	(4,517)	(4,517)
Capital increase to subsidiaries by their then equity owners	18(2)	—	6,044	—	—	6,044	—	6,044
Consideration paid/payable to the then equity holders for acquisition or disposal of subsidiaries under common control	18(2)	—	(310,927)	—	—	(310,927)	—	(310,927)
As at December 31, 2010		811	(82,328)	776,116	(11,803)	682,796	222,813	905,609

Combined Cash Flow Statements

	Note	Year ended December 31, 2008	2009	2010
		RMB'000	RMB'000	RMB'000
Cash flow from operating activities				
Cash generated from operations	31(a)	298,668	107,583	223,822
Interest paid		(15,729)	(19,330)	(24,750)
Income tax paid		(23,371)	(27,511)	(35,731)
Net cash generated from operating activities		259,568	60,742	163,341
Cash flow from investing activities				
Proceeds from disposal of property, plant and equipment	31(b)	10,493	2,622	509
Acquisition of subsidiaries, net of cash acquired	34	(11,700)	—	—
Disposal of a subsidiary	35	—	—	(100)
Investments in associates		(23,725)	—	(4,500)
Investments in jointly controlled entities		(17,372)	(6,309)	(8,844)
Purchases of property, plant and equipment		(210,564)	(196,109)	(144,670)
Purchases of land use rights		—	—	(12,765)
Purchases of intangible assets		(593)	(103)	(16)
Dividends received		4,014	—	4,524
Net cash used in investing activities		(249,447)	(199,899)	(165,862)
Cash flows from financing activities				
Contributions to subsidiaries by their then equity owners	18(2(a))	48,281	3,858	6,044
Capital contributions to the Company	17	—	—	811
Net cash outflow arising from consideration paid to the then equity holders for acquisition of subsidiaries under common control		(3,677)	—	(235,384)
The subsidiaries' non-controlling interests' contribution to these subsidiaries		21,400	6,240	9,951
Proceeds from borrowings		363,667	548,485	852,419
Repayments of borrowings		(223,150)	(422,250)	(490,792)
Dividends paid to the non-controlling interests of the subsidiaries		(23,092)	(11,417)	(27,828)
Dividends paid to the Controlling Shareholder		(40,162)	(63,771)	(1,830)
Security deposit paid for the bank borrowings		—	—	(5,000)
Net cash generated from financing activities		143,267	61,145	108,391
Net increase/(decrease) in cash and cash equivalents		153,388	(78,012)	105,870
Exchange losses on cash and cash equivalents		(1,110)	(853)	(537)
Cash and cash equivalents at beginning of the year		68,190	220,468	141,603
Cash and cash equivalents at end of the year		220,468	141,603	246,936

II NOTES TO THE FINANCIAL INFORMATION

1. General information of the Group and reorganization

(i) General information of the Group

The Company was incorporated in the Cayman Islands on October 15, 2008 as an exempted company with limited liability under the Company Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands in preparation for listing the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"). The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and distribution of oil and gas equipment and coating materials, and provision of coating services and oilfield services.

Prior to the incorporation of the Company and the completion of the reorganization as described in Note 1(ii) below (the "Reorganization"), the listing business were carried out by the companies now comprising the Group, which were collectively controlled by Mr. Zhang Jun (the "Controlling Shareholder").

(ii) History and Reorganization of the Group

Prior to the Reorganization, the business of the Group was owned and operated through two holding companies, Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("Huashi Hailong") and Hailong International (L) Ltd. ("Hailong International"). Huashi Hailong is a limited liability company established in the People's Republic of China (the "PRC") in 2001, while Hailong International is a limited liability company established in Malaysia in 2003. Both companies are controlled and beneficially owned by the Controlling Shareholder.

During the period from 2006 to 2008, Huashi Hailong gradually transferred its equity interests in its subsidiaries engaged in the coating materials and service business to Hilong Group of Companies Ltd., a company established in November 2004 in the PRC and was held by Huashi Hailong and Hailong International in a ratio of 35% and 65% respectively, after a series of equity contributions made by Huashi Hailong and Hailong International. Hilong Group of Companies Ltd. became a wholly-owned subsidiary of Hailong International in October 2008 upon the transfer of 35% equity interest in Hilong Group of Companies Ltd. from Huashi Hailong. Please refer to Note 18 for details of these transactions in the Relevant Periods.

In preparation of the Listing, the Group underwent the Reorganization which principally involved:

(a) On October 15, 2008, the Company (formerly named Pacific Energy Holding Limited) was incorporated by Mr. Zhang Jun who then transferred his entire equity interest in the Company on November 13, 2008 to Hilong Group Limited, a limited liability company incorporated on October 15, 2008 in the British Virgin Islands (the "BVI") by Mr. Zhang Jun, for a consideration of HK$ 0.1.

(b) In a consideration of HK$ 1.0, the entire equity interest in Hilong Energy Holding Limited (formerly named Pacific Energy International Limited), a limited liability company incorporated on October 15, 2008 in the BVI by Mr. Zhang Jun, was transferred to the Company on November 13, 2008.

(c) On July 8, 2008, Hilong Energy Limited (formerly named Brave Flame Limited) was incorporated in Hong Kong by Harefield Limited, a Hong Kong company wholly-owned by Ms. Zhang Shuman, the sister of Mr. Zhang Jun. On November 13, 2008, Harefield Limited transferred its 100% equity interest in Hilong Energy Limited to Hilong Energy Holding Limited, for a consideration of HK$ 1.0. As a result, Hilong Energy Limited became a wholly-owned subsidiary of Hilong Energy Holding Limited, which is in turn a wholly-owned subsidiary of the Company.

(d) During the period from July 2010 to March 2011, Hailong International gradually transferred its equity interests in its subsidiaries engaged in the business of manufacturing and distribution of oil and gas equipment, coating materials and provision of coating services and oilfield services, including Hilong Group of Companies Ltd., to Hilong Energy Limited, for a total cash consideration of RMB 320,109,000. Please refer to Note 18 for details of these transactions in the Relevant Periods.

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

The Company's direct and indirect interests in its subsidiaries as at the date of this report are set out in Note 37.

2 Basis of presentation

The controlling shareholder owned and controlled the companies now comprising the Group before the Reorganization and continues to own and control these companies after the Reorganization. For the purposes of this report, the Financial Information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA. The combined balance sheets, combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group for the Relevant Periods have been prepared as if the current group structure had been in existence throughout the Relevant Periods or since the respective dates when these companies first came under the control of the Controlling Shareholder, whichever is the shorter period, in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (Note 3.2(b)).

All significant intra-group transactions and balances have been eliminated on combination.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information is set out below. These policies have been consistently applied during the Relevant Periods.

3.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and under the historical cost convention as modified by the revaluation of derivative financial instruments at fair value.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5 below.

Up to the date of this report, the HKICPA has issued the following new standards, amendments and interpretations which are relevant to the Group's operations but are not yet effective for the annual accounting period beginning January 1, 2011 and which have not been early adopted by the Group:

	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

The Group is in the process of making an assessment of the impact of these standards, amendments and interpretations on the financial statements of the Group in the initial application. The adoption of the above is not expected to have a material effect on the Group's operating results or financial position.

3.2 Consolidation and combination

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting (Note 3.2(b)).

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the combined income statements (Note 3.7).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Merger accounting for common control combination

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealized gains on transactions between the combining entities or businesses are eliminated. Unrealized losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognized as an expense in the period in which they are incurred.

(c) Transaction with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition (Note 3.8), net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the combined income statements, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the combined income statements.

(e) Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

Investment in a jointly controlled entity is accounted for using the equity method of accounting and is initially recognized at cost. The combined income statements include the Group's share of the post-acquisition results of jointly controlled entities, and the combined balance sheets include the Group's share of the net assets of the jointly controlled entities and goodwill identified on acquisition (see Note 3.8) net of any accumulated impairment losses.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management that makes strategic decisions.

3.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB") throughout the Relevant Periods, which is the Company's functional and the Group's presentation currency.

The financial statements are presented in thousands Renminbi unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined income statements within "finance income or cost". All other foreign exchange gains and losses are presented in the combined income statements within "other gains/(losses)—net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the companies comprising the Group (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at balance sheet date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation or combination, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the combined income statements as part of the gain or loss on sale.

3.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the Relevant Periods in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings and facilities	10 to 40 years
Machinery and equipment	5 to 20 years
Office and electronic equipment	3 to 10 years
Vehicles	3 to 10 years
Leasehold improvement	5 to 10 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalized borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses)—net" in the combined income statements.

3.6 Lease prepayments

Lease prepayments represent upfront payments made for the land use rights. It is stated at cost and charged to the combined income statements over the remaining period of the lease on a straight-line basis, net of any impairment losses, if any.

3.7 Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Computer software

Acquired computer software license are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over periods ranging from 2 to 10 years.

(iii) Proprietary technologies

Proprietary technologies are initially recorded at cost and are amortized on the straight-line basis over their estimated useful lives of 10 years.

3.8 Impairment of investments in subsidiaries, associates, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates or jointly controlled entities are required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

3.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group only has financial assets classified as "loans and receivables" during the Relevant Periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "restricted cash" and "cash and cash equivalents", in the combined balance sheets (Notes 15 and 16).

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

3.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.11 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debt will become bankrupt, financial reorganization, and default of payment is considered indicators that the receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the combined income statements.

When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the combined income statements.

3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalent.

3.13 Restricted cash

Restricted cash represents guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreement. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

3.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3.16 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the combined income statements over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing are classified as current liabilities if the loan agreements include an overriding repayment on demand clause, which gives the lender the right to demand repayment at any time at their sole discretion, irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the agreement.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3.17 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in the profit or loss.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognized in the combined income statements.

3.18 Compound financial instruments

Compound financial instruments refer to the Series A convertible preferred shares issued by the Company (Note 19(b)).

In the situation when the derivatives are not closely related to the debt host, these derivatives should be bifurcated and accounted for separately. The derivatives are recognized initially at fair value. The liability component is measured as the residual amount after separating the derivatives. Any directly attributable transaction costs are allocated to the liability components.

Subsequent to initial recognition, the embedded derivatives are carried at fair value. The liability component is measured at amortized cost using the effective interest method.

3.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the combined income statements, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.20 Employee benefits

(a) Pension obligations

The PRC employees of the Group covered by various PRC government-sponsored defined-contribution pension plans under which the employees become entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expenses as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group. The non-PRC employees are covered by other defined-contribution pension plans sponsored by local government.

(b) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing benefits.

3.21 Provision and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

3.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of drill pipes, coating materials and related products

Revenue from the sales of drill pipes, coating materials and related products is recognized when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a Group entity has delivered products 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.

(b) Rendering of coating and oilfield service

Coating services revenue is recognized in the accounting period in which the services are rendered.

Oilfield services may be provided on a day-rate basis or a fixed-price basis, with contract terms generally less than one year. The revenue of oilfield services is recognized under the percentage-of-completion method. Revenue from day-rate oilfield services contracts is generally recognized on the basis of labor hours delivered as a percentage of total hours to be delivered. Revenue from fixed-price oilfield services contracts is generally recognized based on the services performed to date as a percentage of the total service to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

(c) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(d) Dividend income

Dividend income is recognized when the right to receive payment is established.

3.23 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognized in the combined income statements over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the combined income statements on a straight-line basis over the expected useful lives of the related assets.

3.24 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined income statements on a straight-line basis over the period of the lease.

3.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.26 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

4 Financial risk management

4.1 Financial risk factors

The Group's major financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments and the policies on how the Group mitigates these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD"). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. Although the Group did not hedge against any fluctuation in foreign currency during the Relevant Periods, management may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in future.

As at December 31, 2008, 2009 and 2010, if USD had strengthened /weakened by 10% against RMB with all other variables held constant, the net profit for each year would have changed mainly 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.

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Year ended:			
Net profit increase/(decrease)			
—Strengthened 10%	6,082	(3,053)	(2,143)
—Weakened 10%	(6,082)	3,053	2,143

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents and restricted cash, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 19.

As at December 31, 2008, 2009 and 2010, if the interest rate on borrowings had been higher/lower by 5%, the net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Year ended:			
Net profit increase/(decrease)			
—Higher 5%	(1,305)	(1,629)	(1,068)
—Lower 5%	1,305	1,629	1,068

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables included in the Financial Information represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

As at December 31, 2008, 2009 and 2010, all cash and cash equivalents, including restricted cash, were deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality. The table below shows the bank deposit balances of the ten major counterparties as at December 31, 2008, 2009 and 2010:

		As at December 31,		
Counterparty	**Rating**	2008	2009	2010
		RMB'000	RMB'000	RMB'000
China Construction Bank	A-*	44,015	61,465	22,574
China Rural Commercial Bank	n.a.	40,787	3,498	7,418
Bank of China	A-*	34,214	33,220	30,438
China Merchants Bank	BBB*	29,197	5,724	33,035
Bank of Communication	BBB+*	26,693	17,951	3,940
Bank of Beijing	BBB*	16,575	19,822	21,641
China Citic Bank	Baa2**	14,025	2,368	5,995
Bank of Agriculture	A1**	13,300	9,260	12,542
Industrial & Commercial Bank of China	A-*	4,293	3,516	5,354
Bank of Jiangsu	n.a.	2,039	297	6,501
Standard Chartered Bank	A+*	—	—	133,069

* The source of credit rating is from S&P.

** The source of credit rating is from Moody's.

The directors of the Company do not expect any losses from non-performance by these counterparties.

The top five customers accounted for 36%, 27% and 33% of total sales for the year ended December 31, 2008, 2009 and 2010. The trade and other receivables which are past due are analyzed in Note 15.

The Group established policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers and volume of sales. Please refer to Note 15 for ageing analysis. Management make 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.

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2008					
Borrowings	296,219	10,847	5,900	—	312,966
Interest payable on borrowings	11,317	1,412	2,116	—	14,845
Trade and other payables, except for the advance from customers	674,410	—	—	—	674,410
	981,946	12,259	8,016	—	1,002,221
As at 31 December 2009					
Borrowings	426,907	11,600	1,200	—	439,707
Interest payable on borrowing	10,407	1,052	525	—	11,984
Trade and other payables, except for the advance from customers	605,898	—	—	—	605,898
	1,043,212	12,652	1,725	—	1,057,589
As at 31 December 2010					
Borrowings	806,753	1,200	—	—	807,953
Interest payable on borrowings	27,492	525	—	—	28,017
Trade and other payables, except for the advance from customers	857,338	—	—	—	857,338
	1,691,583	1,725	—	—	1,693,308

4.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the combined balance sheets) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the Financial Information plus net debt. The Group aims to maintain the gearing ratio between 20% and 40%.

The gearing ratios as at December 31, 2008, 2009 and 2010 are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Total borrowings (Note 19)	311,931	438,396	804,624
Less: Cash and cash equivalents (Note 16)	(220,468)	(141,603)	(246,936)
Net debt	91,463	296,793	557,688
Total equity	928,825	1,013,187	905,609
Total capital	1,020,288	1,309,980	1,463,297
Gearing ratio	8.96%	22.66%	38.11%

The increase in the gearing ratio during the year ended December 31, 2009 and 2010 is resulted primarily from the significant increase in the balance of borrowings.

4.3 Fair value estimation

The Group adopts the amendment to HKFRS 7 for financial instruments that are measured in the combined balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The Group uses valuation techniques to determine the fair value of the derivative financial instruments that are not traded in an active market (Note 19(b)). The derivative financial instrument is included in level 3.

Except for the derivative financial instruments, the carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash and trade and other receivables, except for the prepayments, and financial liabilities including trade and other payables, except for the advance from customers, and current borrowings, approximate to their fair value due to their short maturity. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value.

The fair value of non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group for similar financial instruments.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

(a) Current income taxes and deferred tax

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes 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.

(b) Useful lives of property, plant and equipment

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

(c) Impairment for receivables

The average credit period granted to customers is between 30 to 270 days. The trade and other receivables which are past due are analyzed in Note 15. In the opinion of the Group's directors, delay in receiving payments from the customers mainly attributed to unfavorable market conditions for oil and gas industry, delayed commencement of oil and gas exploratory or production activities due to various reasons beyond the Group's control under the background of global economic crisis. It does not indicate there is a financing transaction included in the sales contract. Accordingly, the Group did not recognize revenue by discounting the consideration receivable/received to 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. A considerable amount of judgement 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. In the opinion of the Group's directors, the major customers of the Group are state-owned oil and gas companies, which account for over 60% of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and prevailing market conditions, the Group did not expect any losses from non-performance by these countparties. At each balance sheet date, the Group also 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 is not significant. Accordingly, the Group did not provide further impairment provision for receivables.

(d) Estimated write-downs of inventories

The Group writes 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 judgement 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.

6 Segment information

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

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

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

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

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

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

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

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

(a) Revenues

The revenue of the Group for the years ended December 31, 2008, 2009 and 2010 are set out as follows:

	Year ended December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Drill pipes and related products	1,261,262	518,586	713,068
Coating materials and services	415,934	435,026	371,856
Oilfield services	24,184	53,044	271,538
	1,701,380	1,006,656	1,356,462

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the year ended December 31, 2008 is as follows:

Business segment	Drill pipes and related products	Coating materials and services	Oilfield services	Total
	For the year ended December 31, 2008			
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Segment revenue	1,339,756	445,582	24,184	1,809,522
Inter-segment sales	(78,494)	(29,648)	—	(108,142)
Revenue from external customers	1,261,262	415,934	24,184	1,701,380
Results				
Segment gross profit	574,526	184,636	6,603	765,765
Segment profit	442,227	138,734	(5,393)	575,568
Finance income				1,830
Finance costs				(15,177)
Share of profits of associates				999
Share of losses of jointly controlled entities				(1,646)
Profit before income tax				561,574
Other information				
Depreciation of property, plant and equipment	18,170	8,237	68	26,475
Amortization of lease prepayments	959	80	—	1,039
Amortization of intangible assets	18	286	—	304
Capital expenditure	167,077	40,881	46,339	254,297

Business segment	Drill pipes and related products	Coating materials and services	Oilfield services	Total
	As at December 31, 2008			
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,309,923	467,853	162,148	1,939,924
Investments in associates				64,135
Investments in jointly controlled entities				19,203
Total assets				2,023,262
Total liabilities	818,381	246,719	29,337	1,094,437

The segment information provided to senior executive management for the reportable segments for the year ended December 31, 2009 is as follows:

	For the year ended December 31, 2009			
Business segment	Drill pipes and related products	Coating materials and services	Oilfield services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Segment revenue	582,962	454,948	53,044	1,090,954
Inter-segment sales	(64,376)	(19,922)	—	(84,298)
Revenue from external customers	518,586	435,026	53,044	1,006,656
Results				
Segment gross profit	165,632	202,925	17,016	385,573
Segment profit/(loss)	54,787	138,203	(25,444)	167,546
Finance income				1,743
Finance costs				(19,699)
Share of losses of associates				(353)
Share of losses of jointly controlled entities				(13,532)
Profit before income tax				135,705
Other information				
Depreciation of property, plant and equipment	31,561	9,063	5,874	46,498
Amortization of lease prepayments	927	80	—	1,007
Amortization of intangible assets	22	240	1	263
Capital expenditure	58,441	6,038	132,523	197,002

	As at December 31, 2009			
Business segment	Drill pipes and related products	Coating materials and services	Oilfield services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,313,718	543,016	251,839	2,108,573
Investments in associates				63,782
Investments in jointly controlled entities				15,509
Total assets				2,187,864
Total liabilities	870,177	243,121	61,379	1,174,677

The segment information provided to senior executive management for the reportable segments for the year ended December 31, 2010 is as follows:

Business segment	Drill pipes and related products	Coating materials and services	Oilfield services	Total
	For the year ended December 31, 2010			
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Segment revenue	767,652	416,965	271,538	1,456,155
Inter-segment sales	(54,584)	(45,109)	—	(99,693)
Revenue from external customers	713,068	371,856	271,538	1,356,462
Results				
Segment gross profit	261,417	187,010	108,179	556,606
Segment profit	153,527	127,772	39,156	320,455
Finance income				700
Finance costs				(30,476)
Share of profits of associates				1,258
Share of losses of jointly controlled entities				(16,756)
Profit before income tax				275,181
Other information				
Depreciation of property, plant and equipment	35,199	9,916	10,585	55,700
Amortization of lease prepayments	927	106	—	1,033
Amortization of intangible assets	24	238	4	266
Capital expenditure	26,102	42,793	134,237	203,132

Business segment	Drill pipes and related products	Coating materials and services	Oilfield services	Total
	As at December 31, 2010			
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,552,428	590,465	540,513	2,683,406
Investments in associates				78,811
Investments in jointly controlled entities				6,279
Total assets				2,768,496
Total liabilities	1,333,988	320,515	208,384	1,862,887

(c) Geographical segments

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

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC	1,045,955	847,583	778,903
Russia and Central Asia	484,431	116,648	209,186
North and South America	52,949	18,845	250,801
Middle East	58,800	10,052	99,876
Others	59,245	13,528	17,696
	1,701,380	1,006,656	1,356,462

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

	Carrying amount of segment assets		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC	486,115	592,653	591,779
Russia and Central Asia	43,481	62,585	54,122
North and South America	—	10,497	82,487
Middle East	—	—	72,472
	529,596	665,735	800,860

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

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC	208,808	152,742	51,312
Russia and Central Asia	45,489	32,477	1,452
North and South America	—	11,783	76,163
Middle East	—	—	74,205
	254,297	197,002	203,132

During the year ended December 31, 2008, 2009 and 2010, revenue from certain individual customer amounted to ten percent or more of the Group's total combined revenue for the respective year. The revenue of these customers during the Relevant Periods are summarized below:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Drill pipes and related products segment customer 1	254,247	n.a.	n.a.
Coating materials and services segment customer 2	n.a.	151,288	n.a.
Oilfield services segment customer 3	n.a.	n.a.	140,312

7 Property, plant and equipment

Group

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Vehicles	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008							
Cost	83,791	141,367	8,586	9,789	520	24,096	268,149
Accumulated depreciation	(9,022)	(12,695)	(2,409)	(2,967)	(101)	—	(27,194)
Net book amount	74,769	128,672	6,177	6,822	419	24,096	240,955
Year ended December 31, 2008							
Opening net book amount	74,769	128,672	6,177	6,822	419	24,096	240,955
Acquisition of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a))	681	12,957	94	558	280	—	14,570
Acquisition of Shanghai Boteng Welding Consumable Co., Ltd. (Note 34(b))	—	2,004	41	191	—	—	2,236
Transferred from construction in progress	17,562	53,743	115	—	—	(71,420)	—
Additions	7,680	36,361	2,440	4,122	105	191,793	242,501
Disposals	(527)	(447)	(97)	—	—	—	(1,071)
Depreciation (Note 22)	(5,282)	(17,603)	(1,342)	(2,067)	(181)	—	(26,475)
Exchange differences	—	—	—	—	—	(2,008)	(2,008)
Closing net book amount	94,883	215,687	7,428	9,626	623	142,461	470,708
At December 31, 2008							
Cost	109,123	253,168	11,251	15,273	972	142,461	532,248
Accumulated depreciation	(14,240)	(37,481)	(3,823)	(5,647)	(349)	—	(61,540)
Net book amount	94,883	215,687	7,428	9,626	623	142,461	470,708
Year ended December 31, 2009							
Opening net book amount	94,883	215,687	7,428	9,626	623	142,461	470,708
Transferred from construction in progress	81,347	124,197	—	—	—	(205,544)	—
Additions	9,606	13,977	3,946	778	—	168,592	196,899
Disposals	—	(3,740)	(53)	(187)	(152)	—	(4,132)
Depreciation (Note 22)	(10,195)	(31,589)	(2,044)	(2,477)	(193)	—	(46,498)
Exchange differences	—	(8,941)	(16)	(6)	—	—	(8,963)
Closing net book amount	175,641	309,591	9,261	7,734	278	105,509	608,014

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Vehicles	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2009							
Cost	200,066	377,409	14,973	15,624	687	105,509	714,268
Accumulated depreciation	(24,425)	(67,818)	(5,712)	(7,890)	(409)	—	(106,254)
Net book amount	175,641	309,591	9,261	7,734	278	105,509	608,014
Year ended December 31, 2010							
Opening net book amount	175,641	309,591	9,261	7,734	278	105,509	608,014
Transferred from construction in progress	100	76,358	34	—	—	(76,492)	—
Additions	8,873	99,057	2,227	2,928	375	76,891	190,351
Disposals	—	(265)	(47)	(90)	—	—	(402)
Depreciation (Note 22)	(8,092)	(41,944)	(2,818)	(2,670)	(176)	—	(55,700)
Disposal of a subsidiary (Note 35)	(4,706)	—	(16)	(165)	—	—	(4,887)
Exchange differences	—	(4,084)	—	—	—	—	(4,084)
Closing net book amount	171,816	438,713	8,641	7,737	477	105,908	733,292
At December 31, 2010							
Cost	199,938	548,430	16,970	17,316	1,062	105,908	889,624
Accumulated depreciation	(28,122)	(109,717)	(8,329)	(9,579)	(585)	—	(156,332)
Net book amount	171,816	438,713	8,641	7,737	477	105,908	733,292

As at December 31, 2008, 2009 and 2010, certain buildings and facilities with carrying amount of RMB2,727,000, RMB94,933,000 and RMB88,411,000, respectively, were secured for the Group's borrowing (Note 19(a)).

As at December 31, 2010, certain machinery and equipment with carrying amount of RMB87,906,000 were secured for the Group's bank borrowing (Note 19(a)).

As at December 31, 2010, certain machinery and equipment with carrying amount of RMB69,298,000 were secured for the Group's Series A convertible preferred shares (Note 19(b)).

Depreciation of property, plant and equipment has been charged to the combined income statements as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cost of sales	21,188	35,728	40,249
Administrative expenses	5,253	10,601	15,227
Selling and marketing expenses	34	169	224
	26,475	46,498	55,700

8 Lease prepayments

Group

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analyzed as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Outside of Hong Kong			
—Lease of 50 years	46,698	45,691	55,788

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Opening net book value	47,737	46,698	45,691
Additions	—	—	12,765
Amortization charges (Note 22)	(1,039)	(1,007)	(1,033)
Disposal of a subsidiary (Note 35)	—	—	(1,635)
Closing net book value	46,698	45,691	55,788

As at December 31, 2008, 2009 and 2010, certain land use right with a carrying amount of RMB41,524,000, RMB40,636,000 and RMB39,747,000, respectively, was pledged as collaterals for the Group's borrowings (Note 19(a)).

The amortization of lease prepayments has been charged to administrative expenses in the combined income statements.

9 Intangible assets

Group

	Goodwill	Proprietary technologies	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008				
Cost	—	3,137	516	3,653
Accumulated amortization	—	(689)	(169)	(858)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	—	351	347	698
Year ended December 31, 2008				
Opening net book amount	—	351	347	698
Additions[(b)]	11,203	—	593	11,796
Amortization charges (Note 22)	—	(46)	(258)	(304)
Closing net book amount	11,203	305	682	12,190
At December 31, 2008				
Cost	11,203	3,137	1,109	15,449
Accumulated amortization	—	(735)	(427)	(1,162)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	11,203	305	682	12,190

	Goodwill	Proprietary technologies	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2009				
Opening net book amount	11,203	305	682	12,190
Additions	—	—	103	103
Amortization charges (Note 22)	—	(46)	(217)	(263)
Closing net book amount	11,203	259	568	12,030
At December 31, 2009				
Cost	11,203	3,137	1,212	15,552
Accumulated amortization	—	(781)	(644)	(1,425)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	11,203	259	568	12,030
Year ended December 31, 2010				
Opening net book amount	11,203	259	568	12,030
Additions	—	—	16	16
Amortization charges (Note 22)	—	(57)	(209)	(266)
Closing net book amount	11,203	202	375	11,780
At December 31, 2010				
Cost	11,203	3,137	1,228	15,568
Accumulated amortization	—	(838)	(853)	(1,691)
Impairment provision	—	(2,097)	—	(2,097)
Net book amount	11,203	202	375	11,780

(a) The impairment provision for proprietary technologies was made in the year ended December 31, 2007 and is mainly attributable to the significant changes that were expected in the drilling pipe production technology.

(b) Impairment test for goodwill

The goodwill addition arose from the acquisition of additional equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. of RMB7,493,000 and Shanghai Boteng Welding Consumable Co., Ltd. of RMB3,710,000 in 2008 (Note 34). The goodwill is mainly attributable to the economies of scale anticipated as a result of combining the operation within the Group.

Goodwill is allocated to the Group's cash-generating units ("CGUs") indentified according to business segment. A segment level summary of goodwill is presented below:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Drill pipes and related products	—	—	—
Coating materials and services	11,203	11,203	11,203
Oilfield services	—	—	—
	11,203	11,203	11,203

As described in Note 3.7 and Note 3.8, goodwill is reviewed for impairment annually. The recoverable amount of the CGU is determined based on the higher of the fair value less cost to sell or its value-in-use estimate. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

(c) The amortization of intangible assets has been charged to the combined income statements as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cost of sales	46	46	46
Administrative expenses	258	217	220
	304	263	266

10 Investments in associates

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Beginning of year	72,768	64,135	63,782
Acquisition of associates (Note 26(a))	—	—	13,795
New investments in associates	23,725	—	4,500
Share of associates' results	999	(353)	1,258
Dividends declared	(4,014)	—	(4,524)
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a))*	(26,447)	—	—
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in Shanghai Boteng Welding Consumable Co., Ltd. (Note 34(b))*	(2,896)	—	—
End of year	64,135	63,782	78,811

The particulars of the associates of the Group during the Relevant Periods, all of which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group during the Relevant Periods As at December 31, 2008	2009	2010	Principle activities
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	November 20, 2004, Shanxi, the PRC	RMB 18,000,000	22.95%	22.95%	22.95%	Coating service provision
CNOOC Tube-Cote Coating Co., Ltd.	September 18, 2006, Tianjin, the PRC	RMB 20,000,000	20.4%	20.4%	20.4%	Coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	April 30, 2007, Jiangsu, the PRC	RMB 105,880,000	41%	41%	41%	Manufacturing and distribution of special steel
Shandong Shengli Oil Field Wuhua Tube- Cote Pipe Coating Co., Ltd.	February 12, 2007, Shandong, the PRC	RMB 20,000,000	—	—	45%	Coating service provision
Anshan Haidelong Anti- Corrosion Engineering Co., Ltd.	November 22, 2010, Lioaning, the PRC	RMB 15,000,000	—	—	30%	Coating service provision

* The Group accounted for investments in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and Shanghai Boteng Welding Consumable Co., Ltd. as investments in associates before 2008. In 2008, the Group acquired further interests in these two companies. After the acquisition, the Group has the power to govern the financial and operating policies of these companies by securing a majority voting rights in the meeting of Board of Directors. Therefore, these companies are regarded as subsidiaries of the Group since 2008. Details see Note 34.

The Group's interests in its associates and certain of its key financial information attributable to the Group are as follows:

Name	Assets	Liabilities	Revenues	Profits / (Losses)	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2008	94,389	30,254	50,709	999	64,135
Year ended December 31, 2009	128,451	64,669	69,400	(353)	63,782
Year ended December 31, 2010	109,294	30,483	55,941	1,258	78,811

There were no contingent liabilities relating to the Group's interests in its associates, and no contingent liabilities in the associates themselves.

11 Investments in jointly controlled entities

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.(a)	—	4,067	6,279
Investments and long-term receivables in Almansoori Hilong Petroleum Pipe Company (b)	19,203	11,442	—
	19,203	15,509	6,279

(a) Investments in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Beginning of year	—	—	4,067
New investment in the joint controlled entity	—	5,000	—
Share of the jointly controlled entity's result	—	510	1,950
Elimination of unrealized profit	—	(1,443)	262
End of year	—	4,067	6,279

(b) Investments and a long-term receivable in Almansoori Hilong Petroleum Pipe Company

The Group has a long-term receivable to Almansoori Hilong Petroleum Pipe Company, which is interest-free and do not have fixed payment term. As the Group is neither planned nor likely to settle the long-term receivable in the foreseeable future, the Group regards the long-term receivable as a net investment in Almansoori Hilong Petroleum Pipe Company.

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Beginning of year	9,441	19,203	11,442
New investment in the joint controlled entity	12,372	6,309	8,844
Share of the jointly controlled entity's result	(1,646)	(14,042)	(18,706)
Elimination of unrealized profit	(964)	(28)	(1,620)
Exchange differences	—	—	40
End of year	19,203	11,442	—

The particulars of the jointly controlled entities of the Group during the Relevant Periods, which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group during the Relevant Periods — As at December 31, 2008	2009	2010	Principle activities
Almansoori Hilong Petroleum Pipe Company	November 6, 2006, Emirate of Abu Dhabi	AED 1,000,000	49%	49%	49%	Manufacturing and servicing of drill pipes and coating
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	January 13, 2009, Liaoning, the PRC	RMB 10,000,000	—	50%	50%	Coating service provision

The Group's interests in its jointly controlled entities and certain of its key financial information attributable to the Group are as follows:

Name	Assets	Liabilities	Revenues	Losses	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2008	50,193	30,990	—	(1,646)	19,203
Year ended December 31, 2009	94,727	79,218	16,050	(13,532)	15,509
Year ended December 31, 2010	102,908	96,629	20,431	(16,756)	6,279

12 Deferred income tax assets and deferred income tax liabilities

Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balance after offsetting are as follows:

	As at December 31, 2008	2009	2010
	RMB'000	RMB'000	RMB'000
Deferred income tax assets:			
—to be recovered within 12 months	12,357	25,779	39,106
—to be recovered after more than 12 months	(1,818)	(1,514)	(1,555)
	10,539	24,265	37,551
Deferred income tax liabilities:			
—to be settled within 12 months	—	—	—
—to be settled after more than 12 months	(50,357)	(60,991)	(77,061)
	(50,357)	(60,991)	(77,061)

Movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets	Tax losses carried forward	Impairment provision on assets	Accruals	Unrealized profit[(a)]	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2008	—	1,321	306	261	198	2,086
Acquisition of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a))	—	5	—	—	28	33
Credited to the combined income statements	—	5,163	994	2,904	1,177	10,238
At December 31, 2008	—	6,489	1,300	3,165	1,403	12,357
Credited/(charged) to the combined income statements	4,559	11	(279)	9,057	378	13,726
At December 31, 2009	4,559	6,500	1,021	12,222	1,781	26,083
Credited/(charged) to the combined income statements	289	(8)	116	12,719	170	13,286
At December 31, 2010	4,848	6,492	1,137	24,941	1,951	39,369

(a) Deferred income tax assets of unrealized profit mainly attributed to the unrealized profit on intra-group transfer of property, plant and equipment and inventories.

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB1,502,000, RMB3,162,000 and RMB2,258,000 as at December 31, 2008, 2009 and 2010 in respect of the accumulated tax losses of subsidiaries incorporated in the PRC. Carrying forward of these tax losses will expire, if unused, in the years ending December 31, 2011 to 2015.

Deferred income tax liabilities	Withholding taxation of the unremitted earnings of certain subsidiaries	Gain on remeasuring existing equity interest in certain associates on acquisition	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2008	—	—	—
Charged to the combined income statements	(50,357)	(1,818)	(52,175)
At December 31, 2008	(50,357)	(1,818)	(52,175)
Charged to the combined income statements	(10,634)	—	(10,634)
At December 31, 2009	(60,991)	(1,818)	(62,809)
Charged to the combined income statements	(16,070)	—	(16,070)
At December 31, 2010	(77,061)	(1,818)	(78,879)

13 Other long-term assets

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Prepayment for investment in a jointly controlled entity	5,000	—	—
Others	513	625	219
	5,513	625	219

14 Inventories

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
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
	327,631	333,182	365,522

The Group recognized losses of RMB30,047,000 in respect of the loss on obsolete inventories and write-down of inventories to their net realizable value for the years ended December 31, 2008. These amounts have been included in the cost of sales in the combined income statements (Note 22).

The cost of inventories recognized as cost of sales amounted to approximately RMB787,898,000, RMB486,977,000, RMB626,374,000 for the years ended December 31, 2008, 2009 and 2010, respectively.

15 Trade and other receivables

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bills receivable[(a)]	53,314	16,370	5,727
Trade receivables[(b)]			
—Due from related parties (Note 36(c))	58,601	80,277	55,025
—Due from third parties	445,570	541,731	710,648
Less: provision for impairment of receivables[(d)]	(11,442)	(11,522)	(11,033)
Trade receivables—net	492,729	610,486	754,640
Other receivables[(c)]	163,100	242,765	336,271
Prepayments	103,104	49,545	83,110
Trade and other receivables—net	812,247	919,166	1,179,748

As at December 31, 2008, 2009 and 2010, the fair value of the trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at December 31, 2008, 2009 and 2010, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
—RMB	724,582	881,892	996,289
—USD	87,346	32,638	131,655
—CAD	—	—	36,354
—KZT	319	4,636	15,361
—AED	—	—	86
—IDR	—	—	3
	812,247	919,166	1,179,748

(a) The ageing of bills receivable is within 180 days, which is within the credit term.

(b) The ageing analysis of trade receivables, before provision for impairment, as at December 31, 2008, 2009 and 2010 was as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables, gross			
—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
	504,171	622,008	765,673

The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at December 31, 2008, 2009 and 2010, trade receivables of RMB11,442,000, RMB11,522,000 and RMB11,033,000 were impaired and fully provided for impairment loss. The individually impaired receivables mainly relate to certain oversea customers, which are in unexpectedly difficult economic situations.

As at December 31, 2010, trade receivables of RMB178,411,000 were secured for the Group's bank borrowing (Note 19(a)).

As at December 31, 2008, 2009 and 2010, trade receivables of RMB263,634,000, RMB280,499,000 and RMB310,578,000 were past due but not impaired. These relate to the customers that are state-owned companies which have good trading records with the Group. Based on the past experiences, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
—Within 90 days	38,390	65,533	202,662
—Over 90 days and within 180 days	104,612	69,922	46,633
—Over 180 days and within 360 days	86,467	79,528	31,515
—Over 360 days and within 720 days	34,165	55,042	10,558
—Over 720 days	—	10,474	19,210
	263,634	280,499	310,578

(c) Details of other receivables are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due from related parties (Note 36(c))	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
	163,100	242,765	336,271

(d) Movements in impairment of trade receivables are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At beginning of the year	(507)	(11,442)	(11,522)
Provision for impairment (Note 22)	(10,935)	(80)	—
Reversal of impairment (Note 22)	—	—	489
At the end of the year	(11,442)	(11,522)	(11,033)

Impairment provision for trade receivables is charged to administrative expenses in the combined income statements. Amounts charged to the allowance account are generally written off when there is no expectation of recovery of additional cash.

16 Cash and cash equivalents and restricted cash

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand[(a)]	254,398	165,600	299,506
Less: Restricted cash[(b)]	(33,930)	(23,997)	(52,570)
Cash and cash equivalents	220,468	141,603	246,936

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand are denominated in:			
—RMB	238,329	153,770	145,845
—USD	15,487	8,086	115,656
—KZT	506	3,744	3,668
—EURO	76	—	42
—HK$	—	—	33,728
—AED	—	—	457
—IDR	—	—	110
	254,398	165,600	299,506
Restricted cash is denominated in:			
—RMB	33,722	23,548	48,357
—USD	208	68	4,164
—KZT	—	381	49
	33,930	23,997	52,570

(a) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates of 0.69%, 0.36% and 0.36% for the year ended December 31, 2008, 2009 and 2010, respectively.

(b) Restricted cash represents guaranteed deposits held in a separate reserve account pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreement (Note 19(a)).

(c) The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Company

All the cash and cash equivalents of the Company are not restricted and denominated in HK dollars.

17 Share capital

Group and Company

	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary share
			(HK$)	(RMB)
Authorized:				
Ordinary shares of HK$ 0.1 each	(a)	3,800,000	380,000	334,324
Issued:				
Ordinary shares of HK$ 0.1 each issued upon incorporation on October 15, 2008 and December 31, 2008 and 2009	(a)	1	0.1	0.09
Share issued and paid on November 30, 2010	(b)	952,972	952,972	810,846
As at December 31, 2010		952,973	952,972	810,846

(a) The Company was incorporated in Cayman Islands on October 15, 2008 with an authorized share capital of HK$380,000 divided into 3,800,000 shares of a nominal value of HK$0.10 each.

(b) On November 30, 2010, pursuant to a board resolution, the Company issued 953,299 shares with a nominal value of HK$1.0 each to Hilong Group Limited, including 952,972 shares paid on November 30, 2010 and 327 shares paid on March 7, 2011.

(c) On January 31, 2011, 46,700 shares of Series A convertible preferred shares (Note 19(b)) was converted to the Company's ordinary share.

(d) On February 28, 2011, pursuant to the written resolutions of all the shareholders of the Company, the authorized share capital of the Company was diminished by the cancellation of all authorized but unissued Series A convertible preferred shares of HK$0.1 each of the Company and following such diminution, the authorized share capital of the Company was increased by creation such number of ordinary shares of HK$0.1 each of the Company necessary to increase the authorized share capital to HK$3,000,000,000 divided into 30,000,000,000 shares of HK$0.1 each.

(e) In March 2011, three family trusts (the "Mr. Zhang's Family Trusts") were established by Mr. Zhang (as settlor) to hold indirect interests in the shares for the benefit of his family members, with Standard Chartered Trust (Cayman) Limited acting as the trustee. Each of Mr. Zhang's Family Trusts holds 100% of the equity interest in the respective BVI entities, which in turn holds equity interest in the Company of 2%, 2% and 5.33%, respectively.

18 Other reserves

Group

	As at December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Statutory reserve(1)	54,148	64,799	76,395
Capital reserve	145	145	97
Merger reserve(2)	142,205	146,063	(158,820)
	196,498	211,007	(82,328)

(1) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

For the years ended December 31, 2008, 2009 and 2010, RMB44,826,000, RMB10,651,000 and RMB11,596,000 were appropriated to the statutory surplus reserve funds from net profits of certain PRC Subsidiaries.

(2) Merger reserve

	RMB'000
At January 1, 2008	165,085
Contribution to subsidiaries by their then equity owners (Note a(i))	48,281
Consideration paid to the then equity holders for acquisition of subsidiaries under common control (Note b(i))	(71,161)
At December 31, 2008	142,205
Contribution to subsidiaries by their then equity owners (Note a(ii))	3,858
At December 31, 2009	146,063
Contribution to subsidiaries by their then equity owners (Note a(iii))	6,044
Consideration paid/payable to the then equity holders for acquisition or disposal of subsidiaries under common control (Note b(ii))	(310,927)
At December 31, 2010	(158,820)

The Company was incorporated during the year ended December 31, 2008 and the Reorganisation was not completed prior to December 31, 2010. For the purpose of the combined financial statements, the merger reserve in the combined balance sheets as at December 31, 2008, 2009 and 2010 primarily represents: (1) the aggregate of consideration paid/payable for the acquisitions of subsidiaries under common control upon the Reorganisation; and (2) the combined share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

(a) Contribution to subsidiaries by their then equity owners

(i) Represented (1) the acquisition of a further 17.18% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(b)) of RMB13,294,000 by the Hailong International, which reflected as a deemed capital injection to the Group by the Controlling Shareholder; (2) cash injection in Shanxi Tangrong Hilong Drill Tools Co., Ltd. by Hailong International of RMB3,956,000; (3) cash injection in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. by Hailong International of RMB1,215,000; (4) cash injection in Hilong Group of Companies Ltd. by Hailong International of RMB29,816,000. These cash investments were deemed to be injected by the Controlling Shareholder.

(ii) Represented (1) cash injection by Hailong International in Hilong Group of Companies Ltd. of RMB5,000; (2) cash injection by Hailong International in Hilong Oil Service Ltd. of RMB68,000, and (3) cash injection by Hailong International of RMB3,785,000 in Shanxi Tangrong Hilong Drill Tools Co., Ltd. These cash investments were deemed to be injected by the Controlling Shareholder.

(iii) Represented cash injection by Hailong International in Shanxi Tangrong Hilong Drill Tools Co., Ltd. of RMB6,044,000, which reflected as a deemed capital injection to the Group by the Controlling Shareholder.

(b) Consideration paid /payable to the then equity holders for acquisition or disposal of subsidiaries under common control

(i) Represented: (1) the acquisition by Hilong Group of Companies Ltd. of 51% equity interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. originally held by Huashi Hailong at a consideration of RMB49,568,000, and (2) the acquisition by Hilong Group of Companies Ltd. of 25% equity interest in Jiangsu Hilong Drill Pipe Co., Ltd. originally held by Huashi Hailong at a consideration of RMB21,593,000.

(ii) Represented: (1) the acquisition by Hilong Energy Limited of 25% equity interest in Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd., 25% equity interest in Shanxi Tangrong Hilong Drill Tools Co., Ltd., 17.18% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and 25% equity interest in Shanghai Hilong Drill Pipe Co., Ltd. from Hailong International of RMB40,888,000; (2) the acquisition by Hilong Energy Limited of 100% equity interest in Hilong Group of Companies Ltd. from Hailong International of RMB269,024,000; (3) the acquisition by Hilong Energy Limited of 100% equity interest in Hilong Investement from Hailong International of RMB667,000; and (4) the disposal 75% equity interest in Tianjin Shuanghai Petroleum Steel's Pipe Co., Ltd to Huashi Hailong with a disposal loss of RMB348,000 (Note 35).

19 Borrowings

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current			
Bank borrowings—unsecured	15,300	10,600	5,900
Related party borrowings[(c)]	5,112	11,796	10,565
Less: Current portion of non-current borrowings	(4,700)	(10,318)	(15,265)
	15,712	12,078	1,200
Current			
Bank borrowings—secured[(a)]	159,519	264,000	401,758
Bank borrowings—unsecured	132,000	152,000	217,000
Series A convertible preferred shares[(b)]	—	—	169,401
Current portion of non-current borrowings	4,700	10,318	15,265
	296,219	426,318	803,424
	311,931	438,396	804,624

The Group's borrowings are denominated in the following currencies:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Borrowings:			
—RMB	306,300	426,600	665,301
—HK$	—	—	128,758
—USD	5,631	11,796	10,565
	311,931	438,396	804,624

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	6 months or less	Between 6 and 12 months	Between 1 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2008	306,300	—	5,631	311,931
As at December 31, 2009	426,600	—	11,796	438,396
As at December 31, 2010	804,624	—	—	804,624

The maturity of borrowings is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
On demand or within 1 year	296,219	426,318	803,424
Between 1 and 2 years	9,812	10,878	1,200
Between 2 and 5 years	5,900	1,200	—
	311,931	438,396	803,424

The weighted average effective interest rates at each balance sheet date were as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Borrowings—current			
—RMB	7.28%	5.35%	5.78%
—HK$	—	—	6.5%
Borrowings—non-current			
—RMB	7.25%	5.31%	5.31%
—USD	10%	10%	10%

The fair value of current borrowings approximates their carrying amount as the discounting impact is not significant.

The carrying amounts and fair value of the non-current borrowings are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount			
Bank borrowings—unsecured	10,600	5,900	1,200
Related party borrowings	5,112	6,178	—
	15,712	12,078	1,200
Fair value			
Bank borrowings—unsecured	9,826	5,479	1,124
Related party borrowings	5,112	6,178	—
	14,938	11,657	1,124

The fair value of bank borrowings and related party borrowings is based on cash flows discounted using the annual interest rate published by the People's Bank of China and the National Bank of Kazakhstan for long-term bank loans as at each balance sheet date, respectively.

The Group had the following undrawn bank borrowing facilities:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
RMB facilities	—	60,700	—

(a) Bank borrowings—secured

Bank borrowings were secured as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Guaranteed by related parties(i)	107,000	212,000	140,000
Secured by land use rights and guaranteed by related parties(ii)	45,000	—	—
Secured by property, plant and equipment and land use rights(iii)	7,000	7,000	7,000
Secured by bank deposit(iv)	519	—	10,000
Secured by property, plant and equipment, land use rights and guaranteed by related parties(v)	—	45,000	116,000
Secured by property, plant and equipment, accounts receivables and guaranteed by related parties(vi)	—	—	128,758
	159,519	264,000	401,758

i. The bank borrowings of RMB57,000,000 and RMB42,000,000 were guaranteed by Huashi Hailong as at December 31, 2008 and 2009, respectively;

The bank borrowings of RMB30,000,000, RMB100,000,000 and RMB100,000,000 were guaranteed by Mr. Zhang Jun as at December 31, 2008, 2009 and 2010, respectively;

The bank borrowings of RMB20,000,000, RMB70,000,000 and RMB40,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun as at December 31, 2008, 2009 and 2010, respectively;

ii. The bank borrowings of RMB45,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun, the Controlling Shareholder, and secured by certain land use rights (Note 8) of the Group, with total carrying amount of RMB40,039,000 as at December 31, 2008;

iii. The bank borrowings of RMB7,000,000 were secured by certain buildings and facilities (Note 7) and land use rights (Note 8) of the Group, with aggregate carrying amount of RMB4,212,000, RMB4,042,000 and RMB3,871,000 as at December 31, 2008, 2009 and 2010, respectively;

iv. The bank borrowings of RMB519,000 and RMB10,000,000 were secured by certain bank deposit (Note 16(b)) of the Group, with total carrying amount of RMB517,000 and RMB5,000,000 as at December 31, 2008 and 2010, respectively;

v. The bank borrowings of RMB45,000,000 and RMB116,000,000 were jointly guaranteed by Huashi Hailong and Mr. Zhang Jun, and secured by certain buildings and facilities (Note 7) and land use rights (Note 8) of the Group, with aggregate carrying amount of RMB131,527,000 and RMB124,287,000 as at December 31, 2009 and 2010, respectively; and

vi. The bank borrowings of RMB128,758,000 were guaranted by Mr. Zhang Jun, and secured by certain machinery and equipment with carrying amount of RMB87,906,000(Note 7) and certain trade receivables with carrying amount of RMB178,411,000(Note 15) of the Group as at December 31, 2010.

(b) Series A convertible preferred shares

On August 23, 2010, pursuant to an investment agreement, UMW China Ventures (L) Ltd. ("UMW CV"), the Non-Controlling Shareholder, agreed to subscribe to 46,700 Series A convertible preferred shares issued by the Company at a price of RMB3,595 per share with total amount of RMB167,890,000. The significant terms of Series A convertible preferred shares are summarized as follows:

i. Dividends

The holder of Series A convertible preferred shares would be entitled to receive in preference to the holders of the ordinary shares a per share amount equal to 8% of the purchase price per annum.

ii. Conversion

Unless otherwise agreed by the parties, the holder of Series A convertible preferred shares shall convert all of its Series A convertible preferred shares into ordinary shares before the Company submits its listing application on the Main Board of the Stock Exchange of Hong Kong Limited ("HKSE"). The conversion price will be the purchase price of RMB3,595 per share, resulting in an initial conversion ratio of 1-for-1.

iii. Re-conversion

Unless otherwise agreed by the Parties, the holder of Series A convertible preferred shares shall re-convert all of its ordinary shares to Series A convertible preferred shares if its listing application is not acceptable to or is rejected by the HKSE. The re-conversion price will be the conversion price of RMB3,595 per share, resulting in an re-conversion ratio of 1-for-1.

iv. Redemption

At any time commencing on the Series A convertible preferred shares issue date, provided a redemption event has occurred, which is defined in the master investment agreement, UMW CV has the right to sell to the Company, and the Company shall be obliged to redeem the Series A shares. Upon the successful Initial Public Offering ("IPO"), the redemption option shall cease to have any effect.

Redemption amount is equal to the principal amount of the subscription to be redeemed, plus the agreed interest of 20% per annum, minus any actually paid returns to Series A convertible preferred shares.

The redemption events are summarized as follows:

- IPO has not occurred on or before June 30, 2011;
- Prior to IPO, Mr. Zhang Jun, the Controlling Shareholder, and/or Hilong Group Limited sell or transfer , in one or more transactions, greater than 20% (20% not inclusive) of the share capital of the Company owned by it on the date hereof to one or more third parties; or
- Prior to IPO, in one or more transactions, greater than 25% equity interest of Hilong Group of Companies Co., Ltd. has been transferred on the date hereof to one or more third parties.

The redemption price is not approximately equal on exercise date to the amortized cost of the host debt instrument, so the redemption feature is not closely related to the host contract. The conversion/re-conversion features are not closed to the host contract as it involves a put of both the debt host and the derivative conversion feature. Accordingly, these features shall be bifurcated and separately accounted for as derivative financial instruments. As these derivatives are inter-dependent, they shall be bundled together and treated as a single compound embedded derivative. The fair value of the derivatives is measured by using valuation techniques (Note 4.3).

The liability component is measured as the residual amount after separating the fair value of derivatives as mentioned above. The liability component is reflected as borrowings in the combined financial statements and the effective interest rate is 8.15%.

The movement for Series A convertible preferred shares after its issuance is as follows:

	The liability component (Borrowings)	Derivative financial instruments	Total
	RMB'000	RMB'000	RMB'000
As at August 26, 2010 (Issuance date)	164,800	3,090	167,890
Changes in fair value	—	(2,957)	(2,957)
Amortization using the effective interest method (Note 27)	4,601	—	1,268
As at December 31, 2010	169,401	133	169,534

The Series A convertible preferred shares of RMB167,890,000 was secured by certain machinery and equipment (Note 7) of the Group, with total carrying amount of RMB69,298,000 as at December 31, 2010.

(c) Related party borrowing

Related party borrowing represented loans borrowed from Hailong International, which are unsecured, interest free and repayable within 1 year as at December 31, 2010 (December 31, 2009: RMB6,178,000 repayable within 1 year and RMB5,618,000 between 1 to 2 years). The related party borrowing was recognized initially at its fair value and subsequent measured at amortized cost using effective interest method (Note 27).

Company

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current			
Bank borrowings—secured (Note 19(a)(ii))	—	—	128,758
Series A convertible preferred shares (Note 19(b))	—	—	169,401
	—	—	298,159

20 Deferred revenue

Group

Deferred revenue represents government grants relating to certain research projects and production lines. Government grants relating to research projects are recognized in the combined income statements over the financial period necessary to match them with the costs that they are intended to compensate; government grants relating to production line are deferred and recognized in the combined income statements on a straight-line basis over the expected useful lives of the related production lines.

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Government grants,			
Current—relating to certain research projects	1,287	5,574	405
Non-current—relating to certain production lines	—	—	13,650
	1,287	5,574	14,055

21 Trade and other payables

Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bills payable	85,226	90,300	98,176
Trade payables:			
—Due to related parties (Note 36(c))	61,452	60,132	41,256
—Due to third parties	261,239	141,924	239,797
Other payables:			
—Due to related parties (Note 36(c))	96,412	189,707	319,301
—Due to third parties	55,333	39,004	67,759
Staff salaries and welfare payables	9,497	12,173	10,098
Advance from customers	50,790	56,886	96,084
Interest payables	580	423	475
Accrued taxes other than income tax	2,134	23,026	23,820
Dividends payable	94,073	45,513	51,852
Other liabilities	8,464	3,696	4,804
	725,200	662,784	953,422

As at December 31, 2008, 2009 and 2010, all trade and other payables of the Group were non-interest bearing, and their fair value, except for the advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at December 31, 2008, 2009 and 2010, trade and other payables were denominated in the following currencies:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
—RMB	686,404	580,810	714,575
—USD	32,141	73,468	233,121
—KZT	6,653	8,498	5,726
—CAD	2	8	—
	725,200	662,784	953,422

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

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables			
—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
	322,691	202,056	281,053

Company

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fees payable on the establishment of loan facility	—	—	3,982

The ageing of trade and other payables of the Company are within 90 days.

22 Expenses by nature

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress (Note 14)	(75,987)	(1,120)	(31,039)
Raw materials and consumable used (Note 14)	863,885	488,097	657,413
Employee benefit expenses (Note 23)	71,283	88,628	113,239
Utilities and electricity	49,383	44,788	55,760
Transportation expenses	43,321	44,929	48,926
Depreciation (Note 7)	26,475	46,498	55,700
Sales commission and staff's traveling and lodging expenses	18,628	8,888	9,560
Marketing and promotion expenses	18,406	14,858	16,051
Entertainment expenses	21,220	28,851	27,246
Research and development expense	17,443	22,324	27,617
Write-down of inventory balances (Note 14)	30,047	—	—
Traveling and communication expenses	12,461	12,491	16,637
Taxes and levis	4,131	5,830	7,592
Consulting expenses	10,210	19,614	13,797
Amortization of lease prepayments (Note 8)	1,039	1,007	1,033
Operating lease payments	7,284	11,364	13,008
Amortization of intangible assets (Note 9)	304	263	266
Auditor's remuneration	1,306	1,546	4,454
Provision/(reversal) for impairment of receivables (Note 15)	10,935	80	(489)
IPO expense	—	—	8,518
Miscellaneous	2,164	2,934	5,803
Total cost of sales, selling and marketing and administrative expenses	1,133,938	841,870	1,051,092

23 Employee benefit expenses (including director's emoluments)

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Wages and salaries	61,735	73,466	93,871
Other social security costs	9,548	15,162	19,368
	71,283	88,628	113,239

24 Directors' and senior management's emoluments

Group

(a) Director's emoluments

Director's emoluments for the year ended December 31, 2008, 2009 and 2010 are set out as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	740	683	860
Discretionary bonuses	281	323	187
Other benefits including pension	32	32	65
	1,053	1,038	1,112

No director has waived or agreed to waive any emoluments.

Director's emoluments are set out below:

	Fees	Salaries	Discretionary bonuses	Other benefits including pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2008					
Executive Directors					
Zhang Jun (張軍)	—	—	—	—	—
Zhang Shuman (張姝嫚)	—	141	—	7	148
Ji Min (紀敏)	—	—	—	—	—
Non-executive Director					
Yuan Pengbin (袁鵬斌)	—	360	140	22	522
Wang Tao (汪濤)	—	239	141	3	383
Datuk Syed Hisham	—	—	—	—	—
Independent Non-executive Directors					
Liu Qihua (劉奇華)	—	—	—	—	—
Wang Tao (王濤)	—	—	—	—	—
Lee Siang Chin	—	—	—	—	—
	—	740	281	32	1,053
Year ended December 31, 2009					
Executive Directors					
Zhang Jun (張軍)	—	—	—	—	—
Zhang Shuman (張姝嫚)	—	143	14	7	164
Ji Min (紀敏)	—	—	—	—	—
Non-executive Director					
Yuan Pengbin (袁鵬斌)	—	360	140	22	522
Wang Tao (汪濤)	—	180	169	3	352
Datuk Syed Hisham	—	—	—	—	—
Independent Non-executive Directors					
Liu Qihua (劉奇華)	—	—	—	—	—
Wang Tao (王濤)	—	—	—	—	—
Lee Siang Chin	—	—	—	—	—
	—	683	323	32	1,038

	Fees	Salaries	Discretionary bonuses	Other benefits including pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2010					
Executive Directors					
Zhang Jun (張軍)	—	—	—	—	—
Zhang Shuman (張姝嫚)	—	144	20	8	172
Ji Min (紀敏)	—	162	—	22	184
Non-executive Director					
Yuan Pengbin (袁鵬斌)		371	—	31	402
Wang Tao (汪濤)	—	183	167	4	354
Datuk Syed Hisham	—	—	—	—	—
Independent Non-executive Directors					
Liu Qihua (劉奇華)	—	—	—	—	—
Wang Tao (王濤)	—	—	—	—	—
Lee Siang Chin	—	—	—	—	—
	—	860	187	65	1,112

(b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group included one director for the year ended December 31, 2008. His emolument is reflected in the analysis presented above. The emoluments payable to the remaining individuals respectively for the year ended December 31, 2008, 2009 and 2010 are as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	1,276	1,450	2,475
Discretionary bonuses	1,170	2,920	2,520
Other benefits including pension	116	254	159
	2,562	4,624	5,154

The emoluments fell within the following bands:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Emolument bands	4	4	3
Nil to HK$1,000,000 (equivalent to RMB860,000)	—	1	2
HK$1,000,001 to HK$2,000,000 (equivalent to RMB860,000 to RMB1,720,000)	4	5	5

During the Relevant Periods, no director or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

25 Other income

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Gain on remeasuring existing interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (Note 34(a)) on acquisition	5,279	—	—
Gain on remeasuring existing interest in Shanghai Boteng Welding Consumable Co., Ltd. (Note 34(b)) on acquisition	1,994	—	—
	7,273	—	—

26 Other gains—net

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(Loss)/gain on disposal of property, plant and equipment—net	(578)	(1,510)	107
Changes in the fair value for Series A convertible preferred shares (Notes 19(b))	—	—	2,957
Exchange gain/(loss)	245	(3,557)	(1,514)
Government grants	1,967	7,709	7,995
Negative goodwill[(a)]	—	—	5,420
Donation expenses	(515)	(110)	(148)
Others	(266)	228	268
	853	2,760	15,085

(a) The Group acquired 45% equity interest in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. in September 2010 from Hailong International at a cash consideration of RMB8,375,000. Details of net assets acquired and goodwill are as follows:

Purchase consideration	8,375
The fair value of net assets acquired	(13,795)
Negative goodwill	(5,420)

As at December 31, 2010, the purchase consideration has not been paid.

27 Finance costs—net

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Finance income			
—Interest income derived from bank deposits	795	941	700
—Initial recognition of an interest-free related party borrowing using effective interest method (Note 19(c))	1,035	802	—
	1,830	1,743	700
Finance cost			
—Amortization of an interest-free related party borrowing using effective interest method (Note 19(c))	—	(526)	(1,073)
—Amortization of the liability component of Series A convertible preferred shares using effective interest method (Note 19(b))	—	—	(4,601)
—Interest expense on bank borrowings	(15,177)	(19,173)	(24,802)
	(15,177)	(19,699)	(30,476)
Finance costs—net	(13,347)	(17,956)	(29,776)

28 Income tax expense

Group

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current income tax	24,205	28,781	42,491
Deferred income tax (Note 12)	41,937	(3,092)	2,784
Income tax expense	66,142	25,689	45,275

The difference between the actual income tax charge in the combined income statements and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before tax	561,574	135,705	275,181
Tax calculated at statutory tax rates applicable to each group entity	73,442	19,196	40,995
Tax effect of:			
Expenses not deductible for tax purpose	345	5,006	2,583
Tax effect of tax exemption and reduced tax rate under tax holiday[(a)]	(7,356)	(125)	(32)
Additional deduction for research and development expense[(b)]	(297)	(1,236)	—
Income not subject to income tax	(1,494)	(314)	(529)
Unrecognized tax losses carried forward (Note 12)	1,502	3,162	2,258
Tax charge	66,142	25,689	45,275

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

Enterprises incorporated in British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the years ended December 31, 2008, 2009 and 2010.

Enterprises incorporated in other places are subject to income tax rates of 20% to 25% prevailing in the places in which the Group operated throughout the Relevant Periods.

The income tax provision of the Group in respect of its operations in the Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods based on existing legislations, interpretations and practices.

According to the Corporate Income Tax Law of the PRC (the "CIT Law"), the income tax provision of the Group in respect of its operations in the Mainland China has been calculated at the applicable corporate tax rate of 25% on the estimated assessable profits based on existing legislations, interpretations and practices.

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 the Mainland 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. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of their earnings generated from January 1, 2008.

(a) Tax effect of tax exemption and reduced tax rate under tax holiday

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

The effective income tax rate for the companies with tax preferential treatment throughout the Relevant Periods are as follows:

	Year ended December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
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%
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. (Note 34(a))	12.5%	25%	25%

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax rate of 15% for the three years from 2008 to 2010.

* Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax rate of 15% for the three years from 2009 to 2011.

* Shanghai Hilong Shine New Material Co., Ltd. qualified for new/high-tech enterprises and enjoyed preferred income tax of 15% from 2010 to 2012 after the tax holidy as mentioned above.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC throughout the Relevant Periods.

(b) Additional deduction for research and development expense

Pursuant to the CIT Law, an additional tax deduction is allowed based on the actual research and development expense charged to the combined income statements calculated at 50% of such expenses incurred if approved by tax authorities.

29 Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the presentation of the results for the Relevant Periods on a combined basis as disclosed in Note 2 above.

30 Dividends

No dividend has been paid or declared by the Company since its incorporation. Dividends disclosed for the years ended December 31, 2008, 2009 and 2010 represent dividends declared or proposed by the relevant subsidiaries now comprising the Group out of their retained earnings to the then equity holders of the respective companies, after eliminating intra-group dividends.

31 Cash generated from operations

Group

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit for the year before income tax	561,574	135,705	275,181
Adjustments for:			
—Depreciation of property, plant and equipment (Note 7)	26,475	46,498	55,700
—Amortization of lease prepeyments (Note 8)	1,039	1,007	1,033
—Amortization of intangible assets (Note 9)	304	263	266
—Provision/(reversal) for impairment of receivables (Note 15)	10,935	80	(489)
—Write-down of inventory balances (Note 14)	30,047	—	—
—Share of results of associates (Note 10)	(999)	353	(1,258)
—Share of results of jointly controlled entities (Note 11)	1,646	13,532	16,756
—Initial recognition of an interest free related party borrowing using effective interest method (Note 27)	(1,035)	(802)	—
—Finance costs (Note 27)	15,177	19,699	30,476
—Loss/(gain) on disposal of property, plant and equipment (Note 26)	578	1,510	(107)
—Gain on the changes of the fair values for the Series A convertible preferred shares (Note 19(b))	—	—	(2,957)
—Negative goodwill (Note 26)	—	—	(5,420)
—Gain on remeasuring existing interest in associates on acquisition (Note 25)	(7,273)	—	—
	638,468	217,845	369,181
Changes in working capital:			
—Increase in trade and other receivables	(258,184)	(106,919)	(260,582)
—Increase in inventories	(128,192)	(5,551)	(32,340)
—(Increase)/decrease in restricted cash	(20,595)	9,933	(23,573)
—Increase/(decrease) in trade and other payables	67,171	(7,725)	171,136
—Cash generated from operations	298,668	107,583	223,822

(b) Proceeds from disposal of property, plant and equipment

In the combined cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net book amount (Note 7)	1,071	4,132	402
(Loss)/gain on disposal of property, plant and equipment (Note 26)	(578)	(1,510)	107
Receipt of proceeds from sales of property, plant and equipment	10,000	—	—
Proceeds from disposal of property, plant and equipment	10,493	2,622	509

32 Contingencies

As at December 31, 2008, 2009 and 2010, the Group did not have any significant contingent liabilities.

33 Commitments

Group

(a) Capital commitments

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

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	165,732	143,109	65,918

(b) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
No later than 1 year	3,662	3,544	4,176
Later than 1 year and no later than 3 year	4,059	3,789	5,249
Later than 3 years	13,504	11,723	10,020
	21,225	19,056	19,445

34 Business combination

Group

(a) Acquisition of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.

The Group originally held 41% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. through Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., i.e. the Group's effective equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. was 20.91%. In February 2008, Hailong International acquired an additional 17.18% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. from ACE Tubular Technologies PET Ltd., an independent third party company incorporated in Singapore. After the acquisition, the Group's effective equity interest increased from 20.91% to 38.09%. The directors of the Company are of the opinion that the Group has the power to govern the financial and operating policies of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. by securing a majority voting rights in the meeting of Board of Directors, therefore, Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. is regarded as a subsidiary of the Group.

The acquired business contributed revenues of RMB64,151,000 and net profit of RMB18,043,000 to the Group for the year ended December 31, 2008. If the acquisition had occurred on January 1, 2008, the combined revenue and profit would have been approximately the same.

None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.

	RMB'000
Consideration	
Purchase consideration	13,294
Fair value of equity interest held before the business combination, including the equity interest held by the non-controlling interest of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd	31,726
Total consideration	45,020
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	14,570
Deferred income tax assets (Note 12)	33
Inventory	5,817
Trade and other receivables	58,252
Cash and cash equivalents	3,854
Trade and other payables	(15,848)
Current income tax liabilities	(2,175)
Total identifiable net assets	64,503
Non-controlling interest	(26,976)
Goodwill (Note 9(b))	7,493
	45,020

The non-controlling interest was measured at its proportionate share of the acquiree's identifiable net assets.

The Group recognized a gain of RMB5,279,000 as a result of remeasuring at fair value its 20.91% equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. held before the business combination. The gain is included in other income in the Group's combined income statements for the year ended December 31, 2008 (Note 25).

(b) Acquisition of Shanghai Boteng Welding Consumable Co., Ltd.

In March 2008, the Group acquired an additional 25% equity interest in Shanghai Boteng Welding Consumable Co., Ltd. from Xi'an Nate Petroleum Technology Co., Ltd. (西安納特石油技術有限責任公司), an independent third party company incorporated in the PRC. Consequently, the Group's equity interest in Shanghai Boteng Welding Consumable Co., Ltd. increased from 29% to 54%.

The acquired business contributed revenues of RMB16,839,000 and net profit of RMB9,407,000 to the Group for the year ended December 31, 2008. If the acquisition had occurred on January 1, 2008, the contribution to revenue would have been RMB22,962,000 and the contribution to the net profit would have been RMB16,174,000.

None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Shanghai Boteng Welding Consumable Co., Ltd. and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Shanghai Boteng Welding Consumable Co., Ltd.'s net assets.

	RMB'000
Consideration	
Purchase consideration	4,216
Fair value of equity interest held before the business combination	4,890
Total consideration	9,106
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 7)	2,236
Inventory	1,031
Trade and other receivables	17,437
Cash and cash equivalents	1,956
Trade and other payables	(12,601)
Current income tax liabilities	(67)
Total identifiable net assets	9,992
Non-controlling interest	(4,596)
Goodwill (Note 9(b))	3,710
	9,106

The non-controlling interest was measured at its proportionate share of the acquiree's identifiable net assets.

The Group recognized a gain of RMB1,994,000 as a result of remeasuring at fair value its 25% equity interest in Shanghai Boteng Welding Consumable Co., Ltd. held before the business combination. The gain is included in other income in the Group's combined income statements for the year ended December 31, 2008 (Note 25).

35 Disposals of a subsidiary

Group

On to December 2010, the Group disposed of its entire 75% equity interest in Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. to Huashi Hailong, which is under the common control of the Controlling Shareholder. The diposal was accounted for as distribution of dividend to the Controlling Shareholder and recorded in the merger reserve.

	RMB'000
Total consideration	13,155
Net assets disposed	(13,551)
Loss on disposal	(396)
Amounts previously recognized in other comprehensive income	48
Loss on disposal recognized in merger reserve (Note 18(2))	(348)

The aggregated assets and liabilities in respect of the above disposals were as follows:

	RMB'000
Cash and cash equivalents	100
Trade and other receivables	12,210
Lease prepayments	1,635
Property, plant and equipment	4,887
Trade and other payables	(664)
Current income tax liabilities	(100)
Net assets	18,068
Equity interests rate	75%
Net assets disposed	13,551
Net loss on disposal	(396)
Total consideration	13,155
Less: other receivables due from related parties	(13,155)
Cash received	—
Less: Cash and cash equivalents in the subsidiary disposed	(100)
Cash outflow disposals	(100)

36 Related party transactions

Group and Company

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended December 31, 2008, 2009 and 2010, and balances arising from related party transactions as at December 31, 2008, 2009 and 2010.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

	Chinese name
Hailong International	n.a.
Hilong Oil Pipe Co., Ltd	n.a.
Hilong USA LLC	n.a.
Huashi Hailong	北京華實海隆石油機械設備有限公司
Beijing Huashi Hilong Oil Investment Co., Ltd	北京華實海隆石油投資公司
Huashi Audio Visual Investment (Beijing) Co., Ltd	華視影視投資北京有限公司
Jiangyan Hilong Wire Welding Co., Ltd	薑堰市海隆耐磨帶焊接有限公司
Hebei Zhongxin Precision Machinery Co., Ltd	河北中新精密機械有限公司
Wuxi Borui Petroleum Engineering Co., Ltd	無錫博瑞石油機械有限公司
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd	天津雙海石油鋼管製造有限公司*

* Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. was a subsidiary of the Group before December 2010. In December 2010, the Group disposed of its entire 75% equity interest in it to Huashi Hailong, which is under the common control of the Controlling Shareholder. As a result, Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd. was regarded as a related party of the Group since December 2010. Details see Note 35.

(iv) Associates of the Group

	Chinese name
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	山東勝利油田物華圖博可特管道塗層有限公司
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	中海石油圖博可特天津管道有限公司
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	西安長慶圖博可特石油管道塗層有限公司
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd	江蘇圖博可特曙光塗層有限公司*
Nantong Hilong Steel Pipe Co., Ltd	南通海隆鋼管有限公司
Shanghai Boteng Welding Consumable Co., Ltd	上海博騰焊接材料有限公司*

* These companies are the associates of the Group in 2007. In 2008, the Group acquired further interest in these two companies. As a result, these two companies are regarded as subsidiaries of the Group since 2008. Details see Note 34.

(v) Jointly controlled entities of the Group

	Chinese name
Almansoori Hilong Petroleum Pipe Company	n.a.
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	盤錦遼河油田派普圖博可特塗層有限公司

(vi) The subsidiaries' non-controlling interest

	Chinese name
Jiangsu Hilong Shuguang Steel Pipe Co., Ltd	江蘇海隆曙光鋼管有限公司

(vii) Controlled by key management personnel

	Chinese name
Shanghai Yuanzhi Metallurgical Co., Ltd	上海圜直冶金技術諮詢服務有限公司
Shanghai Xinhao Technology Development Co., Ltd	上海信豪科技發展有限公司
Shanxi Ante Petroleum Engineering Technology Co., Ltd	陝西安特石油工程技術有限公司

(b) *Transactions with related parties*

Save as disclosed elsewhere in this report, during the years ended December 31, 2008, 2009 and 2010, the Group had the following significant transactions with related parties:

	The Group		
	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Sales of goods:			
Hilong USA LLC	44,878	—	—
Almansoori Hilong Petroleum Pipe Company	15,786	10,052	29,626
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	8,328	5,364	5,184
Hilong Oil Pipe Co., Ltd	8,069	4,607	4,608
Hailong International	7,487	5,702	—
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	4,411	3,827	2,833
Huashi Hailong	1,438	3,473	5,701
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	634	4,480	24,112
Shanxi Ante Petroleum Engineering Technology Co., Ltd	256	—	—
Nantong Hilong Steel Pipe Co., Ltd	—	36,965	3,104
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	—	11,850	10,389
Beijing Huashi Hilong Oil Investment Co., Ltd	—	4,134	5,924
Jiangyan Hilong Wire Welding Co., Ltd	—	103	2,863
	91,287	90,557	94,344
Purchase of materials:			
Huashi Hailong	37,396	8,581	—
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	11,798	705	4,889
Wuxi Borui Petroleum Engineering Co., Ltd	4,900	4,648	—
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	3,337	—	—
Nantong Hilong Steel Pipe Co., Ltd	2,468	46,246	37,875
Hebei Zhongxin Precision Machinery Co., Ltd	474	19	756
Beijing Huashi Hilong Oil Investment Co., Ltd	—	3,476	8,671
Jiangyan Hilong Wire Welding Co., Ltd	—	1,411	1,417
	60,373	65,086	53,608
Consulting fee:			
Shanghai Xinhao Technology Development Co., Ltd	6,000	6,000	937
Shanghai Yuanzhi Metallurgical Co., Ltd	—	2,083	6,417
	6,000	8,083	7,354
Sales Commission:			
Huashi Hailong	5,474	3,090	127

Before the Group became a certified supplier of certain state-owned entities, its products were sold to these state-owned entities through Huashi Hailong, which was a certified supplier of these state-owned entities since 2005. Huashi Hailong charged sales commission to the Group, which usually ranged from 2% to 3% of total sales through Huashi Hailong.

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

(c) Balances with related parties

	The Group		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables due from:			
Hilong USA LLC	44,878	27,766	2,091
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	9,544	11,984	1,544
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	3,651	3,277	2,640
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	329	1,523	3,383
Shanxi Ante Petroleum Engineering Technology Co., Ltd	199	184	184
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	—	19,885	2,756
Nantong Hilong Steel Pipe Co., Ltd	—	11,016	11,000
Beijing Huashi Hilong Oil Investment Co., Ltd	—	4,521	—
Jiangyan Hilong Wire Welding Co., Ltd	—	121	3,188
Almansoori Hilong Petroleum Pipe Company	—	—	28,239
	58,601	80,277	55,025
Other receivables due from:			
Huashi Hailong	107,375	175,180	160,075
Shanxi Ante Petroleum Engineering Technology Co., Ltd	10,400	10,400	10,400
Jiangsu Hilong Shuguang Steel Pipe Co., Ltd	7,000	7,000	—
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd	2,919	3,843	11,703
Beijing Huashi Hilong Oil Investment Co., Ltd	—	14,700	58,524
Hilong USA LLC	—	190	—
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	—	12	13,230
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd	—	—	18,052
Nantong Hilong Steel Pipe Co., Ltd	—	—	12,632
Huashi Audio Visual Investment (Beijing) Co., Ltd	—	—	6,651
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	—	—	2,685
Hilong Oil Pipe Co., Ltd	—	—	2,035
Almansoori Hilong Petroleum Pipe Company	—	—	1,085
	127,694	211,325	297,072
Prepayments to:			
Nantong Hilong Steel Pipe Co., Ltd	3,351	—	—
Huashi Hailong	15	—	—
Beijing Huashi Hilong Oil Investment Co., Ltd	—	29,661	23,350
	3,366	29,661	23,350

	The Company		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other receivables due from:			
Hilong Energy Limited	—	—	264,949

Other receivables due from Hilong Energy Limited is non-trade in nature, unsecured, interest-free and have no fixed payment terms.

	The Group		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables due to:			
Huashi Hailong	49,783	58,055	29,648
CNOOC Tube-Cote Tianjin Pipe Co., Ltd	4,911	504	3,382
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd	2,836	—	—
Nantong Hilong Steel Pipe Co., Ltd	1,975	—	—
Wuxi Borui Petroleum Engineering Co., Ltd	1,713	—	—
Beijing Huashi Hilong Oil Investment Co., Ltd	234	96	745
Jiangyan Hilong Wire Welding Co., Ltd	—	1,477	2,714
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd	—	—	4,767
	61,452	60,132	41,256
Other payables due to:			
Hailong International	78,496	115,947	317,072
Huashi Hailong	17,916	73,760	2,193
Beijing Huashi Hilong Oil Investment Co., Ltd	—	—	36
	96,412	189,707	319,301
Advance from:			
Huashi Hailong	606	—	—
Almansoori Hilong Petroleum Pipe Company	—	3,823	—
	606	3,823	—
Dividends payable due to:			
Huashi Hailong	32,342	35,148	35,148
Hailong International	58,876	1,300	9,470
	91,218	36,448	44,618
Loan borrowing from:			
Hailong International (Note 19(c))	5,112	11,796	10,565

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

(d) Key management compensation

	The Group		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	2,545	2,683	4,221
Discretionary bonuses	1,490	2,102	1,724
Other benefits including pension	193	273	301
	4,228	5,058	6,246

37 Investment in a subsidiary

	The Company		
	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Unlisted, at cost	—	—	—

Particulars of the subsidiaries of the Group as at the date of this report and during the Relevant Periods are set out below:

Company name	Country/place and date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group% December 31, 2008	2009	2010	Direct/ Indirect	Principle activities
Hilong Group of Companies Ltd.	PRC, January 14, 2005	USD 1,458,842	100%	100%	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, August 30, 2005	USD 3,600,000	100%	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, December 29, 2005	RMB 3,000,000	54%*	54%	54%	Indirect	Manufacturing and distribution of hardbanding materials
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, November 17, 2006	RMB 50,000,000	100%	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, November 22, 2006	RMB 30,000,000	100%	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, January 1, 2008	RMB 40,000,000	51%	51%	51%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, March 8, 2002	RMB 26,000,000	51%	51%	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, October 22, 2003	USD 4,000,000	38.09%*	38.09%	38.09%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, November 12, 2003	RMB 15,000,000	72%	72%	72%	Indirect	Manufacturing and distribution of coating materials
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, November 9, 2005	RMB 10,000,000	60%	60%	60%	Indirect	Coating service provision
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, January 7, 2008	RMB 20,000,000	45.4%	45.4%	45.4%	Indirect	Coating service provision
Hilong Oil Service and Engineering Co., Ltd.	PRC, July 16, 2008	RMB 80,000,000	95%	95%	95%	Indirect	Oilfield service provision

* These two companies are associated companies of the Group before 2008, details refer to Note 10.

Company name	Country/place and date of incorporation	Issued and paid up capital/registered capital	Effective interests held by the Group% December 31, 2008	2009	2010	Direct/ Indirect	Principle activities
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.	PRC, May 27, 2002	USD 2,100,000	75%	75%	—**	Indirect	Manufacturing and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, June 9, 2009	RMB 6,000,000	—	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Tubular Goods Research Institute	PRC, October 27, 2006	RMB 5,000,000	100%	100%	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, January 5, 2009	RMB 24,000,000	—	99%	99%	Indirect	Manufacturing and distribution of oil and gas equipment
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	RPC, April 16, 2009	RMB 20,000,000	—	100%	100%	Indirect	Manufacturing and distribution of oil and gas equipment
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, September 29, 2010	RMB 15,000,000	—	—	55%	Indirect	Coating service provision
Hilong Energy Holding Limited	British Virgin Islands, October 15, 2008	— (1 share was issued with no par value)	100%	100%	100%	Direct	Investment holding
Hilong Energy Limited	Hong Kong, July 8, 2008	HK$1	100%	100%	100%	Indirect	Investment holding
Hilong Oil Service Ltd.	Malaysia, March 4, 2009	USD 10,000	—	100%	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, March 18, 2009	USD 400	—	100%	100%	Indirect	Oilfield service provision
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, December 28, 2006	KZT110,000	100%	100%	100%	Indirect	Oilfield service provision
PT Hilong Oil Service & Engineering Indonesia	The Republic of Indonesia, May 6, 2010	USD 150,000	—	—	95%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, July 26, 2010	IDR30,000,000	—	—	100%	Indirect	Oilfield service provision
Hilong Investment Ltd.	Malaysia, September 13, 2006	USD 100	100%	100%	100%	Indirect	Investment holding
Hilong Petropipe Co., Ltd.	Canada, April 17, 2007	CAD 100	100%	100%	100%	Indirect	Oil and gas equipment trading
Hilong Drilling & Supply FZE	Dubai, December 15, 2009	AED 1,000,000	—	100%	100%	Indirect	Oilfield service provision

** Equity interest in this company has been disposed by the Group in 2010, details refer to Note 35.

The companies that have audited statutory financial statements during the Relevant Periods and the name of the auditors are as follows:

Company name	Name of statutory auditors 2008	2009	2010
Incorporated in the PRC:			
Hilong Group of Companies Ltd.	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Hilong Drill Pipe (Wuxi) Co., Ltd.	Wuxi Gongqin CPA Co., Ltd. (無錫公勤會計師事務所)	Wuxi Gongqin CPA Co., Ltd. (無錫公勤會計師事務所)	Wuxi Gongqin CPA Co., Ltd. (無錫公勤會計師事務所)
Shanghai Boteng Welding Consumable Co., Ltd.	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Shanghai Hilong Drill Pipe Co., Ltd.	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Jiangsu Hilong Drill Pipe Co., Ltd.	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)	Houma Zhongcheng CPA Co., Ltd. (侯馬中誠聯合會計師事務所)	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	Huaxia CPA Co., Ltd. (華夏會計 師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)	Taizhou Mingrui CPA Co., Ltd. (泰州市明瑞會計師事務所)
Shanghai Hilong Shine New Material Co., Ltd.	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)	Shanghai Chenghui CPA Co., Ltd. (上海誠匯會計師事務所)
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)	Shangxi Houmashuguang CPA Co., Ltd. (山西侯馬曙光會計師事務所)
Hilong Oil Service and Engineering Co., Ltd.	Zhongyin CPA Co., Ltd. (中逸會計師事務所)	Zhongyin CPA Co., Ltd. (中逸會計師事務所)	Zhongyin CPA Co., Ltd. (中逸會計師事務所)

Company name	Name of statutory auditors 2008	2009	2010
Tianjin Shuanghai Petroleum Steel Pipe Co., Ltd.	Tianjin Beiyang Jincaikuai CPA Co., Ltd. (天津北洋金財會計師事務所)	Tianjin Beiyang Jincaikuai CPA Co., Ltd. (天津北洋金財會計師事務所)	Not applicable as the equity interest in this company has been disposed by the Group in 2010, details refer to Note 35.
Shanghai Hilong Special Steel Pipe Co., Ltd.	Not applicable	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Shanghai Hilong Tubular Goods Manufacuring Co., Ltd.	Not applicable	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)	Shanghai Reihe CPA Co., Ltd. (上海瑞和會計師事務所)
Incorporated in Hong Kong:			
Hilong Energy Limited	RSM China CPA Co., Ltd. (中瑞岳華(香港)會計師事務所)	RSM China CPA Co., Ltd. (中瑞岳華(香港)會計師事務所)	RSM China CPA Co., Ltd. (中瑞岳華(香港)會計師事務所)

Except for the above companies, no audited statutory financial statements were prepared for other subsidiaries as they such are either not required to issue audited financial statements under the local statutory requirements or newly established that their first statutory audits have yet to be completed.

The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

38 Subsequent events

(a) On January 1, 2011, approximate 46,322,000 share options were granted to directors and employees with an exercise price set at the price of RMB 2.59 (expiry date: December 31, 2020).

(b) On February 28, 2011, pursuant to the written resolutions of all the shareholders of the Company, the authorized share capital of the Company was diminished by the cancellation of all authorized but unissued Series A convertible preferred shares of HK$0.1 each of the Company and following such diminution, the authorized share capital of the Company was increased by creation such number of ordinary shares of HK$0.1 each of the Company necessary to increase the authorized share capital to HK$3,000,000,000 divided into 30,000,000,000 shares of HK$0.1 each.

(c) On February 28, 2011, pursuant to the written resolutions of all the shareholders the Company, the issue of 1,199,000,000 shares will be made upon capitalization of an amount of HK$119,900,000 standing to the credit of the share premium account of the Company.

(d) On March 2, 2011, the Group completed the Reorganization in preparation of the Listing.

(e) In March 2011, three family trusts (the "Mr. Zhang's Family Trusts") were established by Mr. Zhang (as settlor) to hold indirect interests in the shares for the benefit of his family members, with Standard Chartered Trust (Cayman) Limited acting as the trustee. Each of Mr. Zhang's Family Trusts holds 100% of the equity interest in the respective BVI entities, which in turn holds equity interest in the Company of 2%, 2% and 5.33%, respectively.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to December 31, 2010 and up to the date of this report. Except as disclosed in this report, no dividend or distribution have been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to December 31, 2010.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong