海隆控股有限公司*

Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1623

* For identification purpose only

PURSUE
GROWTH
IN A STEADY
PACE

INTERIM REPORT

2018

CONTENTS

This interim report is printed on environmental paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jun (張軍)
(Chairman and Executive Chairman)
Mr. Wang Tao (汪濤)
(Chief Executive Officer)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Li Huaiqi (李懷奇)
Mr. Yang Qingli (楊慶理)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Liu Haisheng (劉海勝)
Mr. Shi Zheyan (施哲彥)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Cheng Pik Yuk (鄭碧玉)

AUDIT COMMITTEE

Mr. Wong Man Chung Francis (黃文宗)
(Chairman of Audit Committee)
Mr. Wang Tao (王濤)
Ms. Zhang Shuman (張姝嫚)

REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Remuneration Committee)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Wong Man Chung Francis (黃文宗)

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Liu Haisheng (劉海勝)

COMPANY SECRETARY

Ms. Cheng Pik Yuk (鄭碧玉)[1]
Ms. Sham Ying Man (岑影文)[2]

AUDITOR

PricewaterhouseCoopers

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch
Shanghai Pudong Development Bank, Baoshan Branch

STOCK CODE

1623

WEBSITE AND CONTACT

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Notes:

(1) Resignation took effect on 23 August 2018

(2) Appointment took effect on 23 August 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2018		2017	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	472,403	31.4	495,614	39.4
– Oil country tubular goods ("**OCTG**") coating services	106,329	7.1	94,986	7.6
– Drill pipe components	30,056	2.0	32,203	2.6
– Hardbanding	5,293	0.4	2,335	0.2
– Others	48,248	3.2	20,689	1.6
Subtotal	662,329	44.1	645,827	51.4
Line pipe technology and services				
– OCTG coating materials	48,491	3.2	22,016	1.8
– Oil and gas line pipe coating materials	503	–	60,451	4.8
– Oil and gas line pipe coating services	60,754	4.0	49,612	3.9
– Corrosion Resistant Alloy ("**CRA**") lined pipe	43,847	2.9	19,041	1.5
– Concrete Weighted Coating ("**CWC**") services	40,256	2.7	43,589	3.5
– Pipeline inspection services	1,595	0.1	3,625	0.3
Subtotal	195,446	12.9	198,334	15.8
Oilfield services	461,492	30.7	374,375	29.8
Offshore engineering services	185,428	12.3	38,241	3.0
Total revenue	1,504,695	100.0	1,256,777	100.0

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

	Six months ended 30 June			
	2018		2017	
	RMB'000	%	RMB'000	%
East Europe, Russia and Central Asia	464,001	30.8	498,221	39.6
The PRC	369,280	24.5	302,166	24.0
South and Southeast Asia	299,016	19.9	183,247	14.6
North and South America	172,720	11.5	105,896	8.4
Africa	147,728	9.8	129,380	10.3
Middle East	51,912	3.5	36,853	2.9
Others	38	0.0	1,014	0.1
Total	1,504,695	100.0	1,256,777	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue increased by RMB247.9 million, or 19.7%, from RMB1,256.8 million for the six months ended 30 June 2017 to RMB1,504.7 million for the Interim Period. Such increase was mainly due to the increase in revenue from oilfield services segment and offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB16.5 million, or 2.6%, from RMB645.8 million for the six months ended 30 June 2017 to RMB662.3 million for the Interim Period. Such increase primarily reflected an increase in revenue derived from OCTG coating services.

The following table sets forth the revenue analysis of the drill pipe sales for the periods indicated:

	Six months ended 30 June	
	2018	2017
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**23,889**	25,954
– unit price *(RMB/tonne)*	**18,177**	18,256
Subtotal *(RMB'000)*	**434,236**	473,808
– The PRC market		
– volume *(tonnes)*	**2,345**	1,451
– unit price *(RMB/tonne)*	**16,273**	15,024
Subtotal *(RMB'000)*	**38,167**	21,806
Total *(RMB'000)*	**472,403**	495,614

Revenue from sales of drill pipes in the international market decreased by RMB39.6 million, or 8.4%, from RMB473.8 million for the six months ended 30 June 2017 to RMB434.2 million for the Interim Period. The decrease primarily reflected a decrease of 8.0% in the volume of drill pipes sold from 25,954 tonnes for the six months ended 30 June 2017 to 23,889 tonnes for the Interim Period. Such decrease was the result that the Company was emphasing on and prioritizing production orders from long-term cooperation and reputable customers.

Revenue from sales of drill pipes in the PRC market increased by RMB16.4 million, or 75.0%, from RMB21.8 million for the six months ended 30 June 2017 to RMB38.2 million for the Interim Period. The increase primarily reflected a 61.6% increase in volume of drill pipes sold in the PRC market from 1,451 tonnes for the six months ended 30 June 2017 to 2,345 tonnes for the Interim Period and, to a lesser extent, a 8.3% increase in average selling price sold in the PRC market from RMB15,024 per tonne for the six months ended 30 June 2017 to RMB16,273 per tonne for the Interim Period. The increase in the sales volume primarily reflected the increased demand in domestic market. The increase in average selling price primarily reflected the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group increased in the Interim Period compared to that in the six months ended 30 June 2017.

Revenue from OCTG coating services increased by RMB11.3 million, or 11.9%, from RMB95.0 million for the six months ended 30 June 2017 to RMB106.3 million for the Interim Period. The increase was mainly due to the increased demands of OCTG coating services in the international market.

MANAGEMENT DISCUSSION AND ANALYSIS

Line pipe technology and services. Revenue from line pipe technology and services segment decreased slightly by RMB2.9 million, or 1.5%, from RMB198.3 million for the six months ended 30 June 2017 to RMB195.4 million for the Interim Period. Such decrease primarily reflected a decrease in the revenue derived from oil and gas line pipe coating materials, partly offset by the increase in revenue derived from OCTG coating materials and CRA lined pipe.

The increase in revenue derived from OCTG coating materials and services of oil and gas line pipe coating primarily reflected that the Company has taken continuous efforts to strengthen its market position, as well as to explore overseas markets. The Company also took the initiative to adjust products structure to increase sales of OCTG coating materials with high gross profit margin. And sales of oil and gas line pipe coating materials decreased accordingly.

The increase in revenue derived from CRA lined pipe primarily reflected our capacities were occupied by several domestic and overseas project, such as project at Tarim Oilfield, project at Xinjiang Keshan Block and PPL project in Pakistan etc.

The slightly decrease in revenue from CWC services reflected that our capacities were occupied by Baosteal Project. The Company has been awarded a new contract with China Petroleum Pipeline Coating Engineering Co., Ltd ("**CPPCE**") at the Bay of Bengal and will contribute further revenue in the second half year.

Oilfield services. Revenue from the oilfield services segment increased by RMB87.1 million, or 23.3%, from RMB374.4 million for the six months ended 30 June 2017 to RMB461.5 million for the Interim Period. Such increase was attributable to (i) higher oilfield drilling services revenue generated from the improvement of overall average utilization rate of drilling rigs, (ii) the increase in revenue from the provision of OCTG trading services provided to oilfield services clients for the Interim Period as compared to the six months ended 30 June 2017.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period mainly represented revenue of RMB93.0 million from CPOC Project, revenue of RMB40.0 million from Sepeat Project and revenue of RMB39.3 million from shipping maintenance, consulting and management for a third-party pipe laying derrick barge.

Cost of Sales/Services

Cost of sales/services increased by RMB179.6 million, or 21.5%, from RMB835.5 million for the six months ended 30 June 2017 to RMB1,015.1 million for the Interim Period. Such increase primarily reflected the increase in the cost of oilfield services segment and offshore engineering services segment,

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB68.3 million, or 16.2%, from RMB421.3 million for the six months ended 30 June 2017 to RMB489.6 million for the Interim Period. Gross profit margin was 32.5% for the Interim Period, decreased by 1.0 ppt compared with that for the six months ended 30 June 2017. Such decrease was mainly due to the development in offshore engineering services for the Interim Period which has a lower gross profit margin compared with the Company's average gross profit margin.

EBITDA margin

EBITDA grew by 27.2% to RMB386.7 million for the Interim Period. EBITDA margin improved by 1.5 ppt to 25.7% for the Interim Period, which reflecting our improving cash generating ability.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB15.7 million, or 20.9%, from RMB75.2 million for the six months ended 30 June 2017 to RMB59.5 million for the Interim Period. These expenses, amounting to 4.0% of revenue for the Interim Period, were lower than 6.0% for the six months ended 30 June 2017. This decrease was attributable to (i) the increase of sales was benefited from our widely recognized reputation among our customers in both domestic and international market; (2) decrease of drill pipe transportation expenses for two production lines have been relocated to Russia.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses increased by RMB2.2 million, or 1.2%, from RMB180.3 million for the six months ended 30 June 2017 to RMB182.5 million for the Interim Period. Such increase primarily reflected the increase in staff costs, travelling expense and office expense.

Other Losses – Net

The Group recognized net loss of RMB11.4 million for the Interim Period and net loss of RMB31.8 million for the six months ended 30 June 2017. The net loss recognized for the Interim Period primarily reflected an exchange loss of RMB11.2 million from the operating activities as a combined result of the depreciation of the Rouble and Canadian Dollar. The net loss recognized for the six months ended 30 June 2017 reflected an exchange loss of RMB37.5 million from the operating activities and RMB5.5 million of government grants in relation to new and high-technology projects.

Finance Costs – Net

Finance costs – net increased by RMB91.2 million, or 254.7%, from RMB35.8 million for the six months ended 30 June 2017 to RMB127.0 million for the Interim Period. Such increase primarily reflected (i) an exchange loss of RMB29.3 million from the financing activities resulting from the appreciation of United States Dollar and Hong Kong Dollar, while for the six months ended 30 June 2017 the exchange gain was RMB46.6 million; (ii) the interest expense from bank borrowings increased from RMB94.5 million for the six months ended 30 June 2017 to RMB105.7 million for the Interim Period.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB101.6 million for the six months ended 30 June 2017 to RMB115.5 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB29.0 million for the six months ended 30 June 2017 and RMB39.4 million for the Interim Period. Effective tax rate was approximately 28.5% for the six months ended 30 June 2017 and 34.1% for the Interim Period. The increase in effective tax rate was mainly resulted from the change of income tax calculation method of some overseas companies.

Profit for the period attributable to equity owners of the Company

As a result of the foregoing, profit for the period attributable to equity owners of the Company increased from RMB65.4 million for the six months ended 30 June 2017 to RMB70.8 million for the Interim Period.

Inventories

Inventories generally consist of raw materials, work-in-progress and finished goods, as well as packing materials and low value consumables. The following table sets forth the inventory balances as of the dates indicated as well as the turnover days of average inventory for the periods indicated:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Inventory	**981,989**	848,700
Turnover days of inventory (in days)[(1)]	**164**	164

(1) Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2017. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase of inventories from 31 December 2017 to 30 June 2018 is mainly used for the production of drill pipes and OCTG coating services in the second half of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and Other Receivables

Trade and other receivables consist of trade receivables (due from third parties and related parties), other financial assets at amortised cost, bills receivable, other current assets and dividends receivable. The following table sets forth the components of the trade and other receivables outstanding as at the dates indicated:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Trade receivables		
– Due from third parties	**1,758,444**	1,901,756
– Due from related parties	**22,081**	5,925
– Less: Provision for impairment of receivables	**(53,785)**	(44,164)
Trade receivables – net	**1,726,740**	1,863,517
Other receivables(i)		
– Due from third parties	**–**	95,055
– Due from related parties	**–**	107,262
Other receivables	**–**	202,317
Other financial assets at amortized cost(i)	**241,851**	–
Other current assets(i)	**242,447**	–
Bills receivable	**28,276**	23,013
Prepayments(i)	**–**	166,312
Dividends receivable	**4,511**	5,037
Total	**2,243,825**	2,260,196

(i) Other receivables and prepayments are now presented as other financial assets at amortised cost (other receivables) and other current assets (prepayments) above to reflect their different nature.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
– Within 90 days	**756,705**	814,464
– Over 90 days and within 180 days	**221,117**	195,656
– Over 180 days and within 360 days	**321,170**	332,458
– Over 360 days and within 720 days	**218,901**	266,502
– Over 720 days	**262,632**	298,601
Trade Receivables	**1,780,525**	1,907,681
Less: provision for impairment of trade receivables	**(53,785)**	(44,164)
Trade receivables, net	**1,726,740**	1,863,517
Turnover days of trade receivables, net[1]	**217**	238

(1) Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2017. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The Group applies the simplified approach to provide for expected credit losses prescribed in IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 1 January 2018 and 30 June 2018 is determined by incorporating forward looking information.

Movement on the Group's allowance for impairment of trade receivables are as follows:

	2018 RMB'000
As at 1 January 2018	**44,164**
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	**11,045**
Reversal of provision for trade receivables impairment	**(1,424)**
As at 30 June 2018	**53,785**

The decrease in turnover days of trade receivables from 238 days as at 31 December 2017 to 217 days as at 30 June 2018 primarily reflected that settlement for trade receivables due from certain oil and gas companies was accelerated in the Interim Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and Other Payables

Trade and other payables primarily consist of trade payables (due to third parties and related parties), other payables, bills payable, staff salaries and welfare payables, interest payable, accrued taxes other than income tax, dividends payable and other liabilities. The following table sets forth the components of trade and other payables outstanding as at the dates indicated:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Bills payable	**174,837**	165,683
Trade payables		
– Due to related parties	**–**	30,265
– Due to third parties	**637,165**	645,654
Other payables		
– Due to related parties	**7,775**	36,021
– Due to third parties	**38,984**	34,815
Staff salaries and welfare payables	**32,582**	32,843
Advance from customers	**–**	114,175
Interest payables	**5,446**	5,362
Accrued taxes other than income tax	**70,993**	40,675
Dividends payable	**18,459**	3,482
Other liabilities	**10,964**	10,699
	997,205	1,119,674

Trade payables represent payables due to third party suppliers and related parties. The following table sets forth an aging analysis of trade payables due to third parties and related parties as at the dates indicated and turnover days of trade payables for the dates indicated:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Trade payables, gross		
– Within 90 days	**303,972**	474,009
– Over 90 days and within 180 days	**263,716**	176,756
– Over 180 days and within 360 days	**60,604**	11,500
– Over 360 days and within 720 days	**4,888**	8,978
– Over 720 days	**3,985**	4,676
	637,165	675,919
Turnover days of trade payables(1)	**118**	119

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2017. Average trade payables equals balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Growth in Key Markets

Factors including strong demand, geopolitical issues and the efforts to limit production by the Organisation of the Petroleum Exporting Countries ("**OPEC**") and Russia, led to a continued improvement in oil price in the first half of 2018. After global oil inventories having returned to a desired level and the US shale activities experiencing pipeline capacity restraints, OPEC and Russia, the markets where we focus our operations, announced production increase. We operated throughout the period with emphases on profitability, cash flow and management and achieved growth in key markets. We expanded Oil Country Tubular Goods ("**OCTG**") coating business in Russia, obtained milestone oilfield service contracts with Petroleum Development Oman LLC ("**PDO**") in Oman and BP Iraq N.V. ("**BP**") in Iraq while extending partnership with Shell Upstream Albania B.V. ("**SHELL**") in Albania, secured sizable Concrete Weight Coating ("**CWC**") contract on the Bay of Bengal and successfully completed offshore engineering projects in Southeast Asia.

Our revenue in the first half of 2018 increased by 19.7% to approximately RMB1,504.7 million from RMB1,256.8 million in the first half of 2017. Net profit for the six months ended 30 June 2018 amounted to RMB76.1 million, representing an improvement of 4.8% from RMB72.6 million for the corresponding period in 2017.

Oilfield Equipment Manufacturing and Services – concentrate on premium products and services and recovery in China market

Oilfield Equipment Manufacturing and Services segment contributed revenue of RMB662.3 million in the first half of 2018, representing an increase of 2.6% from the same period in the previous year. Segment gross profit margin jumped from 31.3% in the first half of 2017 to 37.4% in the first half of 2018, primarily due to expansion of OCTG coating services and US drill pipe rental businesses.

Drill pipe shipment reduced from 27.4 thousand tons for the six months ended 30 June 2017 to 26.2 thousand tons for the corresponding period in 2018. The decline resulted from reduced sales in Russia due to the Company's was emphasing on and prioritizing production orders from long-term cooperation and reputable customers. In the fast-growing US market, popularity of our drill pipes under rental business model continued to gain momentum. In addition, our high-margin hardbanding wire products, where innovation kept pricing power, recorded a 126.7% jump in sales.

OCTG coating services revenue increased by 11.9% from RMB95.0 million in the first half of 2017 to RMB106.3 million in the first half of 2018. This arose from strong growth in overseas business, in particular our new coating factory in Russia.

Integrated Oilfield Services – established businesses with high-end customers

Oilfield services contributed revenue of RMB461.5 million in the first half of 2018, representing an increase of 23.3% from the corresponding period in 2017. This primarily arose from improvement of overall average drilling rig utilization rate, supported by higher oil price, and continued increases in income from equipment trading activities and technical services.

MANAGEMENT DISCUSSION AND ANALYSIS

Our efforts to pursue further opportunities in the Middle East led to entering into service contracts in January 2018 for two rigs in Oman with an initial operational period of 10 years, which can be further extended for up to five years. The annual contract value for each rig is no less than USD10 million and this long-term award under each contact resulted from our improved service efficiency and track record of Quality, Health, Safety and Environmental (QHSE) performance that create value and reassurance for our customers. Revenue contribution was expected to commence from the end of 2018. We also started partnership with BP in Iraq and signed a USD85 million contract regarding the provision and operation of two onshore workover units commencing in 2019 for a primary period of five years, which can be further extended for a period of one year. In addition, our services in Albania were well acknowledged by SHELL and we were awarded an extension contract for a period of two years with the total value of up to USD28 million.

Line Pipe Technology and Services – margin improved significantly and significant offshore CWC contract obtained

For the six months ended 30 June 2018, we recognised revenue of RMB195.4 million from line pipe technology and services segment, representing a slight reduction of 1.5% from that in the first half of 2017. This resulted from a decrease in sales of line pipe coating materials and a slight reduction in CWC services due to the timing of recognising revenue from major contracts, offset by the double in sales of both OCTG coating material and Corrosion Resistant Alloy ("**CRA**") lined pipe and an increase in line pipe coating services. The change in mix led to segment gross profit margin improving from 27.4% in the first half of 2017 to 35.2% in the first half of 2018.

During the Reporting Period, we obtained an integrated pipeline anti-corrosion and weighted coating commissioned processing contract with China Petroleum Pipeline Coating Engineering Co., Ltd and the total consideration is no less than RMB173 million. Under the contract, we will supply anti-corrosion coating, concrete weighted coating (CWC) as well as sacrificial anode protection installation for a single-point mooring project with a double pipeline to be built at the Bay of Bengal. The partnership will allow us to continue to expand into the broader pipeline anticorrosion markets around the globe.

Offshore Engineering Services – Southeast Asian projects well executed

Our offshore business recovery is under way and it generated revenue of RMB185.4 million in the first half of 2018, compared to that of RMB38.2 million in the corresponding period in 2017.

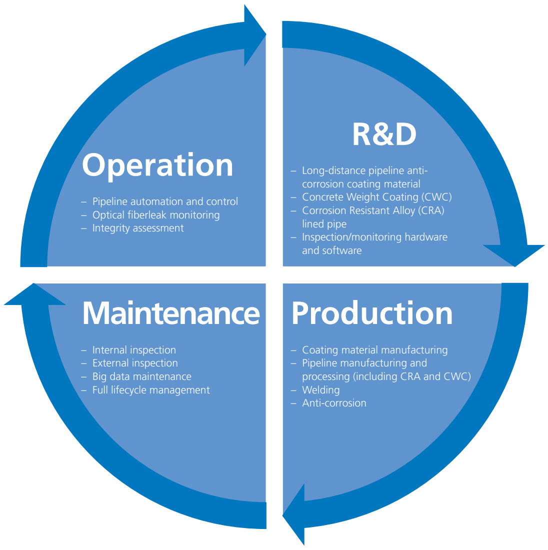
We successfully completed the transportation and installation for three wellhead platforms, subsea pipelines and host tie-ins under an Engineering Procurement Construction Installation contract in Thailand and we believe this paved way for us to expand our relationship with CUEL Limited. When providing wellhead platform installation services in Malaysia for Malaysia Marine and Heavy Engineering Holdings Berhad, we achieved cost reduction while maintaining the quality of work in various areas including fuel, human resource and welding through measures such as process simplification and less subcontracting. We also finished several modifications in preparation for renting out our "Hilong 106" barge to Saipem S.p.A to serve in the Tangguh field in Indonesia.

MANAGEMENT DISCUSSION AND ANALYSIS

Innovation on Track

Tuning to innovation, we reached advanced stages in the development of inside anti-corrosive coating for oil gathering pipelines and the potential market can reach tens of thousands of kilometres for each oilfield. This leverages on our existing competitive coating materials development capabilities and pipeline connection technologies and our coating factories in China and overseas.

For long-distance nature gas and oil pipeline, we have been developing: pipeline inspection services; optical fibre monitoring and security early warning services; and the related software, building an integrated database to continuously identify and evaluate risks for the purposes of risk control and adverse factor elimination. All such developments, along with our mature coating products and services, provide customers with full lifecycle pipeline management, which integrates products and services and employs big data (see an illustration of the circular ecosystem below). In respect of core technologies in pipeline inspection, our independent research centre developed inspection robot and data analysis system to evaluate defects and designed and constructed pull test ground.



In order to assist with the efficiency improvement of our oilfield service client companies, we are enhancing the performance of our drill pipe premium connections in respect of high torque, fatigue life improvement, faster assembly speed and lower maintenance costs. We are also developing oilfield related technologies, offering including new hydraulic fracturing technology to significantly cut hydraulic fracturing costs and reduce the environmental damage caused by conventional fracturing fluid and development of Managed Pressure Drilling (MPD) to improve drilling efficiency, reduce well control risks and decrease downhole accident rate.

Outlook

The recent strong oil prices are supported by favourable market fundamentals. GDP growth around the globe remains robust, which backs up strong demand for crude oil. On the supply side, geopolitical risks in countries including Iran, Venezuela and Libya continue to create pressure. In the US, the pipeline capacity constrains limit production in the Permian Basin, although OPEC and Russia announced moderate increase in their supply. With years of under investment in exploration and production during the downturn, spending is likely to pick up and this strengthens our confidence in the future performance of our portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

Oilfield Equipment Manufacturing and Services

We continue to implement our integrated product and service model by developing and manufacturing various types of drill pipes, premium connections, coating materials and providing coating services. Following the announcement by OPEC and Russia to increase their supply to keep up with the growing demand, we expect gradual increase in their drilling activities. Our drill pipe and OCTG coating businesses' established presence in these countries will allow us to gain from this development. Recent tendering activities show an increase in demand for our drill pipes with premium connections and other non-API drill pipe products in the Middle East and Russia. Having relocated two drill pipe production lines to Russia last year to bring products more quickly to our customers and to hedge risks including currency and tariff, we are looking to further increase the capacity of our OCTG coating business in this region where the high quality of coating differentiates us form many peer companies. In the Middle East, we are looking to capture the high-end market.

Shale activities in the US remain robust and the drill pipe market started to experience tightness as a result of President Trump's 25% steel tariff. After seeing a surge in revenue since 2017 from our drill pipe rental business and localised OCTG coating operations, the US will continue to be one of the focused markets for us. We are confident that at least part of the tariff can be passed on to customers. Growing oil and gas investments in China market are encouraging, with increases in both sales volume and prices of our drill pipes in the first half of 2018 and we are considering exploring additional opportunities.

Oilfield Services

The Middle East is the key market for our oilfield service businesses and we saw a revival in demand. We mobilised a drilling rig in the first half of 2018 to Oman, with another rig mobilization scheduled in the second half of 2018, and these will further increase our market share. Following OPEC's announcement of gradually increasing production, we expect the market to improve further. We will focus on better utilising our existing equipment while pursuing provision of more premium integrated services to high-end market customers. We have prospects of obtaining additional turnkey contracts in the Middle East to further improve profitability and drive the development of technical services. In terms of executing projects, we will further professionalise our works and improve standards for operational efficiency, collaboration with customers, teamwork and QHSE.

Following obtaining our first integrated service contract in Pakistan in the first half of 2017 and execution of the contract being on track, we will continue to pursue an integrated service strategy. We have developed capabilities of performing many key technical services including drilling fluid, cementing, directional well, horizontal well, casing, cuttings treatment, drill bit and completion, and only an insignificant part of technical services is outsourced. The asset-light nature of technical services is expected to further make our development dependent less on high capital expenditure. Coming out of the deepest oilfield service industry downturn, we are excited by the activity and pricing opportunities lying ahead.

Line Pipe Technology and Services

In China, the Development and Reform Commission and Energy Bureau published "Mid-and-long-term oil and gas pipeline network planning" and proposed that by 2025, the scale of the national oil and gas pipeline network will reach 240,000 kilometers, representing an approximately 80% increase from 2017. Our integrated pipeline solution is expected to benefit from this significant development.

Internationally, following obtaining large CWC contract, our line pipe technology and services segment will continue to seek growth opportunities and work closely with steel company partners. Revenue from our CRA business more than doubled in the first half of 2018 and we are looking to further expand this business. In addition, we are actively pursuing pipeline inspection and security monitoring and early warning service opportunities in China and building our brand in this sector.

MANAGEMENT DISCUSSION AND ANALYSIS

Offshore Engineering Services

Our pipe-laying and derrick vessel Hilong 106 attracted significantly more revenue in 2018 than during the industry downturn, although the market remains competitive and there is pressure on pricing. In the first half of 2018, we saw more signs of a recovery due to higher oil prices and upstream companies' efficiency measures leading to lower break-even costs. Tendering activity is increasing in the main overseas markets we operate including counties in Southeast Asia. There are also positive signs that many state-owned companies in China are looking to accelerate the development of overseas markets, including those along the "One Belt and One Road", and we are actively pursuing opportunities to cooperate with these companies. The successful completion of projects in Southeast Asia further enhanced our reputation, allowing us to build a track record in the region, and enriched our overseas operation experience. We are better positioned than ever before to gain from market recovery.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Net cash generated from operating activities	**77,877**	120,232
Net cash used in investing activities	**(238,724)**	(93,500)
Net cash generated from financing activities	**328,697**	62,692
Net increase in cash and cash equivalents	**167,850**	89,424
Exchange gain/(losses) on cash and cash equivalents	**655**	(10,515)
Cash and cash equivalents at beginning of the period	**389,014**	657,422
Cash and cash equivalents at end of the period	**557,519**	736,331

As at 30 June 2018, cash and cash equivalents were mainly denominated in RMB, USD, Rubles, Naira, Rupee and Canadian dollars.

Operating Activities

Net cash generated from operating activities for the Interim Period was RMB77.9 million, representing cash generated from operation of RMB105.4 million, offset by the income tax payment of RMB27.5 million.

Net cash generated from operating activities for the six months ended 30 June 2017 was RMB120.2 million, representing cash generated from operations of RMB139.8 million, offset by the income tax payment of RMB19.6 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB238.7 million, primarily reflecting payment of RMB237.6 million for purchases of property, plant and equipment.

Net cash used in investing activities for the six months ended 30 June 2017 was RMB93.5 million, primarily reflecting payment of RMB93.8 million for purchases of property, plant and equipment.

Financing Activities

Net cash generated from financing activities for the Interim Period was RMB328.7 million, primarily reflecting proceeds of RMB731.7 million from borrowings and net cash inflow arising from security deposit for bank borrowings of RMB8.3 million, offset by repayment of borrowings of RMB305.9 million and interest payment of RMB110.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash used in financing activities for the six months ended 30 June 2017 was RMB62.7 million, primarily reflecting proceeds of RMB2,330.0 million from borrowings, offset by repayment of borrowings of RMB2,081.2 million, interest payment of RMB127.5 million and net cash outflow arising from security deposit for bank borrowings of RMB58.7 million.

CAPITAL EXPENDITURES

Capital expenditures were RMB107.6 million and RMB278.0 million for the six months ended 30 June 2017 and the Interim Period respectively. The increase in capital expenditures for the Interim Period was mainly due to the overseas business development in oilfield services segment.

INDEBTEDNESS

As at 30 June 2018, the outstanding indebtedness of RMB2,905.4 million was mainly denominated in USD, HKD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Non-current		
Senior Notes – unsecured	2,020,588	1,602,591
Bank borrowings – unsecured	548	660
Bank borrowings – secured	440,742	355,261
Less: Current portion of non-current borrowings	(72,683)	(53,072)
	2,389,195	1,905,440
Current		
Bank borrowings – secured	71,609	149,575
Bank borrowings – unsecured	371,919	341,365
Current portion of non-current borrowing	72,683	53,072
	516,211	544,012
	2,905,406	2,449,452

As at 30 June 2018, borrowings of RMB2,683.0 million were obtained at fixed rate (31 December 2017: RMB2,255.5 million).

The bank borrowings of RMB186.6 million (31 December 2017: RMB108.7 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB37.5 million as at 30 June 2018 (31 December 2017: RMB45.8 million).

As at 30 June 2018, there were bank borrowings of RMB20.0 million (31 December 2017: RMB20.0 million) borrowed by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., a subsidiary of the Group, which was secured by the non-controlling interests of the Group.

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounted to RMB400.0 million. These loan principals were secured by the Controlling Shareholder and his spouse. As at 30 June 2018, RMB385.0 million were drawn down, out of which RMB38.5 million had been repaid during 2017 and 2018. The principals will be fully repayable from 2018 to 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2018, there were bank borrowings of USD16.0 million borrowed by Hilong Oil Service Co., Ltd. a subsidiary of the Group, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate.

On 18 January 2018, the Company issued US$60,000,000 7.25% senior notes due 2020 (the "**Additional 2020 Notes**") to be consolidated and to form a single series with the US$250,000,000 7.25% senior notes due 2020 the Company previously issued on 22 June 2017. The net proceeds of the Additional 2020 Notes amount to approximately US$59 million and will be used outside the PRC to refinance the Group's existing indebtedness, for working capital and general corporate purposes. The Additional 2020 Notes are listed on the Stock Exchange on 19 January 2018.

GEARING RATIO

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

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

The gearing ratios as at 30 June 2018 and 31 December 2017 are as follows:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Total borrowings	**2,905,406**	2,449,452
Less: Cash and cash equivalents	**557,519**	389,014
Restricted cash	**145,084**	150,006
Financial assets at FVTPL	**25,295**	24,040
Net debt	**2,177,508**	1,886,392
Total equity	**3,517,909**	3,463,775
Total capital	**5,695,417**	5,350,167
Gearing ratio	**38.2%**	35.3%

FOREIGN EXCHANGE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 10.9% appreciation of RMB against the USD from 21 July 2005 to 30 June 2018. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 37.7% and 46.0% of the total revenue of the Company for the six months ended 30 June 2017 and the Interim Period, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF AND REMUNERATION POLICY

As at 30 June 2018, the total number of full-time employees employed by the Group was 3,085 (31 December 2017: 2,914). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2018:

On-site workers	1,959
Administrative	525
Research and development	89
Engineering and technical support	385
Company management	33
Sales, marketing and after-sales services	94
	3,085

Employee costs excluding the Directors' remuneration totaled RMB262.6 million for the Interim Period.

Employees are encouraged to take training courses or seminars from time to time to enhance their knowledge and skills. The Group offers employees remuneration packages mainly on the basis of individual performance and experience and also pays regard to industrial practice, which include basic wages, performance related bonuses and the social security and benefits. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on the relevant statutory percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labour and social welfare authorities.

The Company also ratified and adopted a Pre-IPO share option scheme on 28 February 2011. The Pre-IPO share option scheme commenced on 1 January 2011. During 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO share option scheme, have been granted.

The Company adopted a new share option scheme on 10 May 2013. On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this report, none of the share options granted has been exercised.

EVENTS AFTER THE END OF THE INTERIM PERIOD

There were no important events affecting the Company nor any of its subsidiaries since the end of the Interim Period.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2018

	Note	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**3,050,673**	2,915,155
Lease prepayments	7	**85,372**	86,440
Intangible assets	7	**189,170**	183,406
Investments accounted for using equity method		**56,903**	55,629
Deferred income tax assets		**194,254**	180,815
Other long-term assets		**22,493**	21,460
Total non-current assets		**3,598,865**	3,442,905
Current assets			
Inventories		**981,989**	848,700
Contract assets	20	**26,212**	–
Trade and other receivables	8,20	**2,243,825**	2,260,196
Current income tax recoverable		**42,908**	35,695
Financial assets at fair value through profit or loss	5	**25,295**	24,040
Restricted cash		**145,084**	150,006
Cash and cash equivalents		**557,519**	389,014
Total current asset		**4,022,832**	3,707,651
Total assets		**7,621,697**	7,150,556
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	9	**141,976**	141,976
Other reserves	10	**1,137,259**	1,136,669
Currency translation differences		**(108,945)**	(114,649)
Retained earnings	20	**2,115,386**	2,067,512
		3,285,676	3,231,508
Non-controlling interests		**232,233**	232,267
Total equity		**3,517,909**	3,463,775

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2018

	Note	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	11	**2,389,195**	1,905,440
Deferred income tax liabilities		**43,544**	42,902
Deferred revenue		**18,588**	21,783
Total non-current liabilities		**2,451,327**	1,970,125
Current liabilities			
Trade and other payables	12,20	**997,205**	1,119,674
Contract liabilities	20	**75,899**	–
Current income tax liabilities		**56,255**	47,124
Borrowings	11	**516,211**	544,012
Deferred revenue		**6,891**	5,846
Total current liabilities		**1,652,461**	1,716,656
Total liabilities		**4,103,788**	3,686,781
Total equity and liabilities		**7,621,697**	7,150,556

The above condensed consolidated balance sheet should be read in conjunction with accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		(Unaudited) Six months ended 30 June	
	Note	**2018 RMB'000**	2017 RMB'000
Revenue	*6(a)*	**1,504,695**	1,256,777
Cost of sales		**(1,015,090)**	(835,460)
Gross profit		**489,605**	421,317
Selling and marketing expenses		**(59,496)**	(75,228)
Administrative expenses		**(182,461)**	(180,288)
Net impairment losses on financial assets		**1,611**	–
Other losses – net	*13*	**(11,379)**	(31,770)
Operating profit		**237,880**	134,031
Finance income	*14*	**8,006**	58,750
Finance costs	*14*	**(135,033)**	(94,503)
Finance costs – net		**(127,027)**	(35,753)
Share of profit of investments accounted for using equity method		**4,681**	3,307
Profit before income tax		**115,534**	101,585
Income tax expense	*15*	**(39,419)**	(28,994)
Profit for the period		**76,115**	72,591
Profit attributable to:			
Equity owners of the Company		**70,775**	65,370
Non-controlling interests		**5,340**	7,221
		76,115	72,591
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	*16*	**0.0417**	0.0385
– Diluted	*16*	**0.0417**	0.0385

The above condensed consolidated statement of profit or loss should be read in conjunction with accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	(Unaudited) Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Profit for the period	**76,115**	72,591
Other comprehensive income/(losses):		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**5,704**	(45,761)
Total comprehensive income for the period	**81,819**	26,830
Attributable to:		
Equity owners of the Company	**76,479**	19,609
Non-controlling interests	**5,340**	7,221
	81,819	26,830

The above condensed consolidated statement of comprehensive income should be read in conjunction with accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		(Unaudited)						
		Capital and reserves attributable to equity owners of the Company						
	Note	Ordinary shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2017		141,976	1,133,443	1,963,797	15,277	3,254,493	237,385	3,491,878
Profit for the period		–	–	65,370	–	65,370	7,221	72,591
Other comprehensive losses		–	–	–	(45,761)	(45,761)	–	(45,761)
Total comprehensive income/(losses) for the period		–	–	65,370	(45,761)	19,609	7,221	26,830
Transactions with owners in their capacity as owners								
2013 Share Option Scheme	*10(a)*	–	1,287	–	–	1,287	–	1,287
Dividends in respect of 2016	*17*	–	–	(14,723)	–	(14,723)	–	(14,723)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(11,668)	(11,668)
Total transaction with owners		–	1,287	(14,723)	–	(13,436)	(11,668)	(25,104)
As at 30 June 2017		141,976	1,134,730	2,014,444	(30,484)	3,260,666	232,938	3,493,604
As at 31 December 2017		141,976	1,136,669	2,067,512	(114,649)	3,231,508	232,267	3,463,775
Change in accounting policy – HKFRS 9	*20*	–	–	(8,551)	–	(8,551)	–	(8,551)
As at 1 January 2018		**141,976**	**1,136,669**	**2,058,961**	**(114,649)**	**3,222,957**	**232,267**	**3,455,224**
Profit for the period		**–**	**–**	**70,775**	**–**	**70,775**	**5,340**	**76,115**
Other comprehensive income		**–**	**–**	**–**	**5,704**	**5,704**	**–**	**5,704**
Total comprehensive income for the period		**–**	**–**	**70,775**	**5,704**	**76,479**	**5,340**	**81,819**
Transactions with owners in their capacity as owners								
2013 Share Option Scheme	*10(a)*	**–**	**590**	**–**	**–**	**590**	**–**	**590**
Dividends in respect of 2017	*17*	**–**	**–**	**(14,350)**	**–**	**(14,350)**	**–**	**(14,350)**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(5,374)**	**(5,374)**
Total transaction with owners		**–**	**590**	**(14,350)**	**–**	**(13,760)**	**(5,374)**	**(19,134)**
As at 30 June 2018		**141,976**	**1,137,259**	**2,115,386**	**(108,945)**	**3,285,676**	**232,233**	**3,517,909**

The above condensed consolidated statement of changes in equity should be read in conjunction with accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	(Unaudited) Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Cash flow from operating activities		
Cash flow generated from operations	**105,409**	139,829
Income tax paid	**(27,532)**	(19,597)
Net cash generated from operating activities	**77,877**	120,232
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	**4,671**	1,295
Payments for property, plant and equipment	**(237,649)**	(93,817)
Purchases of intangible assets	**(9,233)**	(978)
Dividends received	**3,487**	–
Net cash used in investing activities	**(238,724)**	(93,500)
Cash flow from financing activities		
Proceeds from borrowings	**731,672**	2,330,020
Repayments of borrowings	**(305,941)**	(2,081,163)
Interest paid	**(110,042)**	(127,537)
Dividends paid to non-controlling subsidiary	**4,748**	–
Net cash inflow/(outflow) arising from security deposit for bank borrowings	**8,260**	(58,678)
Net cash inflow arising from financial instruments	**–**	50
Net cash generated from financing activities	**328,697**	62,692
Net increase in cash and cash equivalents	**167,850**	89,424
Cash and cash equivalents at beginning of the period	**389,014**	657,422
Effects of exchange rate changes on cash and cash equivalents	**655**	(10,515)
Cash and cash equivalents at end of the period	**557,519**	736,331

The above condensed consolidated statement of cash flows should be read in conjunction with accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1 GENERAL INFORMATION OF THE GROUP

Hilong Holding Limited (the "**Company**") was incorporated in the Cayman Islands on 15 October 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. 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 drilling equipment and coating materials, and provision of coating, oilfield, offshore engineering and offshore design services.

The Company completed its global initial public offering and listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 21 April 2011.

The condensed consolidated interim financial information was presented in Renminbi thousand (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 23 August 2018.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, it should be read in conjunction with the annual financial statements for the year ended 31 December 2017, and any public announcements made by the company during the interim reporting period.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, except for i) interest paid of RMB110,042,000 (30 June 2017: RMB127,537,000) in the condensed consolidated statement of cash flows has been reclassified from operating cash flows to financing cash flows to provide more relevant information and comparable with the market practice; and ii) the adoption of new and amended standards as set out below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group:

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 "Financial Instruments"; and
- HKFRS 15 "Revenue from contracts with customers"

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 20. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3 ACCOUNTING POLICIES (continued)

(b) New standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

- HKFRS 16 "Leases", effective for the accounting period beginning on or after 1 January 2019;
- HK (IFRIC) 23 "Uncertainty over income tax treatments", effective for the accounting period beginning on or after 1 January 2019; and
- HKFRS 17 "Insurance contracts", effective for the accounting period beginning on or after 1 January 2021

HKFRS 16, "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB93,962,000. Part of these are related to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The standard is mandatory for first interim period within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

(c) Changes effective for annual periods on or after a date to be determined and have not been early adopted by the Group:

Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture". The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to consolidated financial statements for the year ended 31 December 2017.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

5.2 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 and issues of debt instruments or equity instruments.

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 end of the period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 30 June 2018					
Borrowings and interest payables	705,452	2,484,512	45,690	79,816	3,315,470
Trade and other payables (excluding advances from customers, interest payables, staff salaries and welfare payables and other tax liabilities)	888,184	–	–	–	888,184
	1,593,636	2,484,512	45,690	79,816	4,203,654
As at 31 December 2017					
Borrowings and interest payables	708,280	230,700	1,907,966	–	2,846,946
Trade and other payables (excluding advances from customers, interest payables, staff salaries and welfare payables and other tax liabilities)	926,619	–	–	–	926,619
	1,634,899	230,700	1,907,966	–	3,773,565

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and contract assets included in the consolidated financial statements 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.

All cash and cash equivalents and restricted cash were deposited in major financial institutions, which the directors of the Company believe are of high credit quality and will not be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables, bills receivable and time deposits. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The Group regularly monitors the credit history of the customers. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

It has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and costumers.

For other receivables, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and experience. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

Changes in accounting policies impacted credit risk were disclosed in Note 20.

5.4 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation (continued)

(a) The following table presents the Group's financial assets that are measured at fair value as at 30 June 2018 and 31 December 2017.

As at 30 June 2018

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Financial instruments – current				
Financial assets at FVTPL	–	–	25,295	25,295

As at 31 December 2017

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Financial instruments – current				
Financial assets at FVTPL	–	–	24,040	24,040

There were no transfers among levels during the years.

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments as at 30 June 2018.

	Financial assets at FVTPL
As at 1 January 2018	24,040
Addition	–
Gains recognised in profit or loss	1,255
As at 30 June 2018	25,295
Total fair value gains for the period under "Finance cost – net" *(Note 14)*	1,255
Changes in unrealized gains for the period included in profit or loss at the end of the period	1,255

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

5 FINANCIAL RISK MANAGEMENT (continued)

5.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Cash and cash equivalents
- Restricted cash
- Contract assets
- Trade and other receivables
- Trade and other payables
- Borrowings
- Contract liabilities

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 substance from a business perspective, and assesses the performance of the business segment based on profit before income tax without allocation of finance income/(costs), share of profits/(losses) of investments accounted for using equity method and corporate overheads, which is consistent with that in the condensed consolidated interim financial information.

The corporate overheads are not considered as the business segment expenses during the six months ended 30 June 2018 and 2017 as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

The amount provided to senior executive management with respect to total assets is measured in a manner consistent with that of the condensed consolidated interim financial information. These assets are allocated based on the operations of segment. Investments accounted for using equity method are not considered to be segment assets but rather are centrally managed by the treasury function.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6 SEGMENT INFORMATION (continued)

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

- Oilfield equipment manufacturing and services provision, including the production of oilfield equipment and provision of OCTG coating services;

- Line pipe technology and services provision, including the provision of services related to oil and gas pipe line and production of coating materials for anti-corrosive and anti-friction purpose;

- Oilfield services provision, including the provision of well drilling services, integrated comprehensive services, OCTG trading and related services to oil and gas producers; and

- Offshore engineering services provision, including the provision of offshore engineering services and offshore design services.

Sales between segments are carried out at arm's length.

(a) Revenue

The revenue of the Group for the six months ended 30 June 2018 and 2017 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**662,329**	645,827
Line pipe technology and services	**195,446**	198,334
Oilfield services	**461,492**	374,375
Offshore engineering services	**185,428**	38,241
	1,504,695	1,256,777

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2018 is as follows:

Business segment	Six months ended 30 June 2018 (Unaudited)				
	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	679,353	214,355	461,492	185,428	1,540,628
Inter-segment sales	(17,024)	(18,909)	–	–	(35,933)
Revenue from external customers	662,329	195,446	461,492	185,428	1,504,695
Timing of revenue recognition					
At a point in time	517,176	92,841	51,197	–	661,214
Over time	145,153	102,605	410,295	185,428	843,481
	662,329	195,446	461,492	185,428	1,504,695
Results					
Segment gross profit	247,700	68,828	158,189	14,888	489,605
Segment profit	119,526	50,476	83,527	9,532	263,061
Corporate overheads					(25,181)
Operating profit					237,880
Finance income					8,006
Finance costs					(135,033)
Share of profit of investments accounted for using equity method					4,681
Profit before income tax					115,534
Other information					
Depreciation of property, plant and equipment	43,139	9,336	50,740	31,455	134,670
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	1,141	182	85	482	1,890
Capital expenditure	64,255	7,011	206,661	57	277,984

Business segment	As at 30 June 2018 (Unaudited)				
	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	3,212,978	607,198	2,352,451	1,392,167	7,564,794
Investments accounted for using equity method					56,903
Total assets					7,621,697
Total liabilities *(a)*	3,498,573	174,661	400,838	29,716	4,103,788

(a) As at 30 June 2018, the Senior Notes of USD 310,000,000 (31 December 2017: USD250,000,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2017 is as follows:

Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
	Six months ended 30 June 2017 (Unaudited)				
Revenue					
Segment revenue	664,096	216,411	374,375	38,241	1,293,123
Inter-segment sales	(18,269)	(18,077)	–	–	(36,346)
Revenue from external customers	645,827	198,334	374,375	38,241	1,256,777
Results					
Segment gross profit	201,860	54,340	152,998	12,119	421,317
Segment profit/(losses)	68,556	14,749	84,260	(1,250)	166,315
Corporate overheads					(32,284)
Operating profit					134,031
Finance income					58,750
Finance costs					(94,503)
Share of profit of investments accounted for using equity method					3,307
Profit before income tax					101,585
Other information					
Depreciation of property, plant and equipment	43,617	8,831	52,484	25,571	130,503
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	345	94	30	461	930
Capital expenditure	40,741	1,277	21,686	43,910	107,614

Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
	As at 30 June 2017 (Unaudited)				
Segment assets	3,253,423	801,602	2,134,750	1,340,912	7,530,687
Investments accounted for using equity method					58,411
Total assets					7,589,098
Total liabilities *(a)*	3,422,924	318,068	310,433	44,069	4,095,494

(a) As at 30 June 2017, the Senior Notes of USD 250,000,000 was included in the total liabilities of oilfield equipment manufacturing and services segment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6 SEGMENT INFORMATION (continued)

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
East Europe, Russia and Central Asia	**464,001**	498,221
The PRC	**369,280**	302,166
South and Southeast Asia	**299,016**	183,247
North and South America	**172,720**	105,896
Africa	**147,728**	129,380
Middle East	**51,912**	36,853
Others	**38**	1,014
	1,504,695	1,256,777

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

The following table shows the carrying amount of non-current assets, excluding investments accounted for using equity method, deferred income tax assets and other long-term assets, by geographical area in which the assets are located:

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June 2018 RMB'000	31 December 2017 RMB'000
The PRC	**1,862,570**	1,905,547
North and South America	**435,620**	409,885
Middle East	**271,595**	106,093
South and Southeast America	**270,287**	270,128
Africa	**244,175**	254,024
East Europe, Russia and Central Asia	**240,968**	239,324
	3,325,215	3,185,001

The following table shows the additions/(reduction) to non-current assets, excluding investments accounted for using equity method, deferred income tax assets and other long-term assets, by geographical area in which the assets are located:

	(Unaudited)	
	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Middle East	**166,705**	(12,658)
North and South America	**56,347**	970
East Europe, Russia and Central Asia	**29,816**	37,975
The PRC	**13,161**	78,022
South and Southeast Asia	**8,451**	5,356
Africa	**3,504**	(2,051)
	277,984	107,614

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

7 PROPERTY, PLANT AND EQUIPMENT, LEASE PREPAYMENTS AND INTANGIBLE ASSETS

		(Unaudited)	
	Property, plant and equipment RMB'000	**Lease prepayments** RMB'000	**Intangible assets** RMB'000
As at 1 January 2017			
Cost	4,140,002	105,680	183,104
Accumulated depreciation	(1,000,258)	(17,113)	(7,426)
Impairment provision	–	–	(2,097)
Net book amount	3,139,744	88,567	173,581
Six months ended 30 June 2017			
Opening net book amount	3,139,744	88,567	173,581
Additions	106,636	–	978
Disposals	(1,683)	–	–
Other deductions *(a)*	(2,426)	–	–
Depreciation	(130,503)	(1,068)	(930)
Currency translation differences	(57,270)	–	(2,813)
Closing net book amount	3,054,498	87,499	170,816
As at 30 June 2017			
Cost	4,166,587	105,680	181,215
Accumulated depreciation	(1,112,089)	(18,181)	(8,302)
Impairment provision	–	–	(2,097)
Net book amount	3,054,498	87,499	170,816
As at 1 January 2018			
Cost	**4,052,335**	**105,680**	**194,997**
Accumulated depreciation	**(1,137,180)**	**(19,240)**	**(9,494)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**2,915,155**	**86,440**	**183,406**
Six months ended 30 June 2018			
Opening net book amount	**2,915,155**	**86,440**	**183,406**
Additions	**268,751**	**–**	**9,233**
Disposals	**(5,333)**	**–**	**–**
Depreciation	**(134,670)**	**(1,068)**	**(1,890)**
Currency translation differences	**6,770**	**–**	**(1,579)**
Closing net book amount	**3,050,673**	**85,372**	**189,170**
As at 30 June 2018			
Cost	**4,315,815**	**105,680**	**201,520**
Accumulated depreciation	**(1,265,142)**	**(20,308)**	**(10,253)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**3,050,673**	**85,372**	**189,170**

(a) Other deductions mainly represent the transition from machinery and equipment to inventory due to the change of use purpose.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Bills receivable	**28,276**	23,013
Trade receivables *(a)*		
– Due from third parties	**1,758,444**	1,901,756
– Due from related parties *(Note 18(c))*	**22,081**	5,925
Trade receivables – gross	**1,780,525**	1,907,681
Less: Provision for impairment of receivables	**(53,785)**	(44,164)
Trade receivables – net	**1,726,740**	1,863,517
Dividends receivable *(Note 18(c))*	**4,511**	5,037
Other financial assets at amortised cost *(Note 20) (i)*	**241,851**	–
Other receivables *(Note 18(c)) (i)*	**–**	202,317
Other current assets *(i)*	**242,447**	–
Prepayments *(i)*	**–**	166,312
Trade and other receivables – net	**2,243,825**	2,260,196

As at 30 June 2018 and 31 December 2017, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

(i) As at 30 June 2018, other receivables and prepayments were presented as other financial assets at amortised cost (other receivables) and other current assets (prepayments) above to reflect their different nature.

(a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at 30 June 2018 and 31 December 2017 was as follows:

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Trade receivables, gross		
– Within 90 days	**756,705**	814,464
– Over 90 days and within 180 days	**221,117**	195,656
– Over 180 days and within 360 days	**321,170**	332,458
– Over 360 days and within 720 days	**218,901**	266,502
– Over 720 days	**262,632**	298,601
	1,780,525	1,907,681

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

9 ORDINARY SHARES

	(Unaudited)		
	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary shares (In RMB)
As at 1 January 2017 and 30 June 2017	1,696,438,600	169,643,860	141,975,506
As at 1 January 2018 and 30 June 2018	1,696,438,600	169,643,860	141,975,506

10 OTHER RESERVES

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Statutory reserve	**101,472**	101,472
Merger reserve	**(141,929)**	(141,929)
Share options reserve *(a)*	**48,319**	47,729
Share premium	**1,172,248**	1,172,248
Capital redemption reserve	**702**	702
Capital reserve	**(43,553)**	(43,553)
	1,137,259	1,136,669

(a) Share options reserve

On 28 February 2011, the Company ratified and adopted an equity-settled "Pre-IPO share option plan" to recognize the contributions made by the directors and the employees of the Group.

At the annual general meeting of the shareholders on 10 May 2013, the shareholders adopted a share option scheme (the "**2013 Share Option Scheme**") for options to subscribe for not more than 5% ordinary shares of the then total outstanding shares of the Company. The purpose of the 2013 Share Option Scheme is to provide incentive or reward to certain directors or employees of the Group for their contribution to the Group. On 5 February 2014, options for a total of 19,980,000 ordinary shares of the Company under 2013 Share Option Scheme were granted to certain employees of the Group.

The fair value of the contributions received in exchange for the grant of the options is recognised as an expense on a straight-line basis over vesting period of each tranche. These share options are measured at fair value at granting date. The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the granting date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) Pre-IPO share option plan

The movements in the number of share options outstanding and their related exercise prices under the Pre-IPO share option plan are as follows:

	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2018	2017
Beginning of the period	2.60	**29,564,300**	29,174,300
Current year change	2.60	**–**	390,000
End of the period	2.60	**29,564,300**	29,564,300

The share options outstanding (expiry date: 21 April 2021) as at 30 June 2018 and 2017 have the following vesting dates and exercise prices:

	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
Vesting date		**2018**	2017
21 April 2012	2.60	**2,176,900**	2,176,900
21 April 2013	2.60	**6,426,800**	6,426,800
21 April 2014	2.60	**6,973,000**	6,973,000
21 April 2015	2.60	**6,985,800**	6,985,800
21 April 2016	2.60	**7,001,800**	7,001,800
	2.60	**29,564,300**	29,564,300

All of the options were exercisable as at 30 June 2018 and 2017. No options were exercised during the six months ended 30 June 2018 and 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) Pre-IPO share option plan (continued)

The fair value of the Pre-IPO share options at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of share options granted under Pre-IPO share option plan	32,804

The significant inputs into the model were as follows:

	Granting date	
	In HKD	Equivalent to RMB
Spot share price	2.60	2.11
Exercise price	2.60	2.11
Expected volatility	55.98%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.80%	N/A
Dividend yield	2.00%	N/A
Early Exercise Level	1.30	N/A

(ii) 2013 Share Option Scheme

There was no change in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme during the six month ended 30 June 2018 and 2017:

	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2018	2017
Beginning of the period	5.93	**17,221,200**	17,221,200
Current year change	5.93	**–**	–
End of the period	5.93	**17,221,200**	17,221,200

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2018 and 2017 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June 2018	2017
5 February 2015	5.93	**3,444,240**	3,444,240
5 February 2016	5.93	**3,444,240**	3,444,240
5 February 2017	5.93	**3,444,240**	3,444,240
5 February 2018	5.93	**3,444,240**	3,444,240
5 February 2019	5.93	**3,444,240**	3,444,240
	5.93	**17,221,200**	17,221,200

The fair value of the 2013 Share Option Scheme at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of share options granted under 2013 Share Option Scheme	29,009

The significant inputs into the model were as follows:

	Granting date In HKD	Granting date Equivalent to RMB
Spot share price	5.64	4.43
Exercise price	5.93	4.66
Expected volatility	55.79%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.20%	N/A
Dividend yield	2.68%	N/A
Early Exercise Level	1.58	N/A

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2018 for share options granted under 2013 Share Option Scheme amounted to RMB590,000 (six months ended 30 June 2017: RMB1,287,000),with a corresponding amount credited in share options reserve.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

11 BORROWINGS

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Non-current		
Bank borrowings – secured *(a)*	440,742	355,261
Bank borrowings – unsecured	548	660
Senior Notes – unsecured *(b)*	2,020,588	1,602,591
Less: Current portion of non-current borrowings	(72,683)	(53,072)
	2,389,195	1,905,440
Current		
Bank borrowings – secured *(a)*	71,609	149,575
Bank borrowings – unsecured	371,919	341,365
Current portion of non-current borrowings	72,683	53,072
	516,211	544,012
	2,905,406	2,449,452

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June 2018 RMB'000	2017 RMB'000
Beginning of the period	2,449,452	2,748,089
Additions of borrowings – net	719,181	2,281,847
Repayments of borrowings	(305,941)	(2,081,163)
Amortization using the effective interest method	12,324	22,480
Exchange difference	30,390	(66,426)
End of the period	2,905,406	2,904,827

The fair value of current borrowings equals their carrying amount as the discounting impact is not significant. While the fair values of the non-current bank borrowings approximated their carrying amount.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

11 BORROWINGS (continued)

(a) Secured bank borrowings

The bank borrowings of RMB186,609,000 (31 December 2017: RMB108,665,000) were secured by certain bank deposits of the Group, with a carrying amount of RMB37,500,000 as at 30 June 2018 (31 December 2017: RMB45,760,000).

As at 30 June 2018, there were bank borrowings of RMB20,000,000 (31 December 2017: RMB20,000,000) borrowed by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., a subsidiary of the Group, which was secured by the non-controlling interests of the Group.

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounted to RMB400,000,000. These loan principals were secured by the Controlling Shareholder and his spouse. As at 30 June 2018, RMB385,000,000 were drawn down, out of which RMB38,500,000 had been repaid during 2017 and 2018. The principals will be fully repayable from 2018 to 2020.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("SINO SURE", a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2018, USD16,000,000 were drawn down. The principals will be fully repayable from 2019 to 2025.

(b) Senior Notes

In June 2017, the Company issued Senior Notes amounting to USD 250,000,000 at a discounted price 99.339% (the "**Original Notes**"). The Senior Notes, guaranteed by certain subsidiaries of the Group, will bear interest from 22 June 2017 at 7.25% per annum payable semi-annually in arrears on 22 June and 22 December of each year, beginning from 22 December 2017. The Senior Notes were listed on the Stock Exchange of Hong Kong Limited on 23 June 2017 and will mature on 22 June 2020.

On 18 January 2018, the Company issued a Senior Notes amounting to USD 60,000,000 in addition to the Original Notes (the "**Additional Notes**"). The Additional Notes, guaranteed by certain subsidiaries of the Group, bear interest at 7.25% per annum payable semi-annually and will mature on 22 June 2020.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

12 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Bills payable	**174,837**	165,683
Trade payables:	**637,165**	675,919
– Due to third parties	**637,165**	645,654
– Due to related parties *(Note 18(c))*	**–**	30,265
Other payables:	**46,759**	70,836
– Due to related parties *(Note 18(c))*	**7,775**	36,021
– Due to third parties	**38,984**	34,815
Advance from customers *(Note 20)*	**–**	114,175
Staff salaries and welfare payables	**32,582**	32,843
Interest payables	**5,446**	5,362
Accrued taxes other than income tax	**70,993**	40,675
Dividends payable	**18,459**	3,482
Other liabilities	**10,964**	10,699
	997,205	1,119,674

As at 30 June 2018 and 31 December 2017, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

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

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Trade payables, gross		
– Within 90 days	**303,972**	474,009
– Over 90 days and within 180 days	**263,716**	176,756
– Over 180 days and within 360 days	**60,604**	11,500
– Over 360 days and within 720 days	**4,888**	8,978
– Over 720 days	**3,985**	4,676
	637,165	675,919

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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13 OTHER LOSSES – NET

	(Unaudited) Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Exchange losses – net	**(11,189)**	(37,481)
Government grants	**1,925**	5,538
Losses on disposal of property, plant and equipment – net	**(662)**	(140)
Others	**(1,453)**	313
	(11,379)	(31,770)

14 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**6,751**	11,007
– Fair value gains on financial assets at fair value through profit or loss	**1,255**	–
– Exchange gain	**–**	46,596
– Fair value gains on foreign exchange forward contracts	**–**	1,147
	8,006	58,750
Finance costs:		
– Interest expense on bank borrowings	**(105,738)**	(94,503)
– Exchange losses	**(29,295)**	–
	(135,033)	(94,503)
Finance costs – net	**(127,027)**	(35,753)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

15 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current income tax	**52,061**	37,800
Deferred income tax	**(12,642)**	(8,806)
Income tax expense	**39,419**	28,994

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

Enterprises incorporated in British Virgin Islands, Dubai, Abu Dhabi and Labuan are not subject to any income tax according to relevant rules and regulations.

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the six months ended 30 June 2018 and 2017.

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 34% prevailing in the places in which the Group operated for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 15% to 34%).

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

Certain subsidiaries are qualified for new/high-tech technology enterprises status or incorporated in the western region of China and engaged in encouraged industries, and therefore enjoy a preferential income tax rate of 15%.

Pursuant to the PRC Corporate Income Tax Law ("**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 1 January 2008 and applies to earnings after 31 December 2007. 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 1 January 2008.

Pursuant to Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2016 to 2018.

As at 30 June 2018, the permanently reinvested unremitted earnings totalled RMB1,390,160,000 (31 December 2017: RMB1,344,320,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16 EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net profit for the period attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period.

	(Unaudited) Six months ended 30 June	
	2018	2017
Profit attributable to equity owners of the Company (RMB'000)	**70,775**	65,370
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,439**	1,696,439
Basic earnings per share (RMB per share)	**0.0417**	0.0385

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 30 June) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 30 June 2018, there were 29,564,300 (30 June 2017: 29,564,300) share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2018 and 2017, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 30 June 2018, there were 17,221,200 (30 June 2017: 17,221,200) share options outstanding related to 2014 Share Option Scheme. For the six months ended 30 June 2018 and 2017, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

17 DIVIDENDS

The dividend in respect of 2017 of HKD0.0100 (equivalent to RMB0.0085) per share, amounting to a total dividend of HKD16,964,000 (equivalent to RMB14,350,000), was approved at the Company's annual general meeting on 22 June 2018. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2018.

The dividend in respect of 2016 of HKD0.0100 (equivalent to RMB0.0087) per share, amounting to a total dividend of HKD16,964,000 (equivalent to RMB14,723,000), was approved at the Company's annual general meeting on 23 June 2017. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2017.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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 six months ended 30 June 2018 and 2017, and balances arising from related party transactions as at 30 June 2018 and 31 December 2017.

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hailong Oil Investments Co., Ltd.
Shanghai Hilong Shine New Material Co., Ltd.
Shanghai Longshi Investment Management Co., Ltd.
Hilong Group Limited

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

(v) Jointly controlled entities of the Group

Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this condensed consolidated interim financial information, during the six months ended 30 June 2018 and 2017, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of goods or services:		
Shanghai Hilong Shine New Material Co., Ltd.	**11,172**	–
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**7,157**	603
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**3,069**	27,822
	21,398	28,425
Purchase of goods:		
Shanghai Hilong Shine New Material Co., Ltd.	**7,898**	–
Rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**5,410**	4,745
Shanghai Longshi Investment Management Co., Ltd.	**1,355**	–
	6,765	4,745

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 terms of the underlying agreements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Trade receivables due from:		
Shanghai Hilong Shine New Material Co., Ltd.	**8,543**	–
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**8,373**	1,313
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**5,165**	4,612
	22,081	5,925
Dividends receivable:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**2,475**	3,487
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,036**	1,550
	4,511	5,037
Other financial assets at amortised cost:		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**59,580**	19,786
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**44,791**	48,485
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**21,357**	24,192
Shanghai Hilong Shine New Material Co., Ltd.	**7,824**	4,377
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**5,525**	6,525
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**1,936**	2,382
Hilong Group Limited	**1,515**	1,515
	142,528	107,262
Other payables due to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**3,921**	4,242
Shanghai Longshi Investment Management Co., Ltd.	**2,484**	1,129
Mr. Zhang Jun	**938**	938
Shanghai Hilong Shine New Material Co., Ltd.	**432**	29,712
	7,775	36,021
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**–**	30,265

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19 COMMITMENTS

(a) Capital commitments

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
Property, plant and equipment	**132,332**	294,039

(b) Operating lease commitments

The Group leases various buildings and a rig 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:

	(Unaudited) 30 June 2018 RMB'000	(Audited) 31 December 2017 RMB'000
No later than 1 year	**36,823**	36,295
Later than 1 year and no later than 3 years	**47,063**	59,999
Later than 3 years	**10,076**	14,344
	93,962	110,638

20 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9, "Financial Instruments" and HKFRS 15, "Revenue from contracts with customers" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

20.1 Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in Note 20.2 below, HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018 modified retrospective approach.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20 CHANGES IN ACCOUNTING POLICIES (continued)

20.1 Impact on the financial statements (continued)

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail in Note 20.2 and Note 20.3.

	31 December 2017 As originally presented RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	1 January 2018 Restated RMB'000
Consolidated balance sheet (extract)				
Contract assets	–	(264)	89,718	89,454
Deferred income tax assets	180,815	2,758	–	183,573
Trade and other receivables	2,260,196	(11,045)	(89,718)	2,159,433
Total assets	2,441,011	(8,551)	–	2,432,460
Contract liabilities	–	–	114,175	114,175
Trade and other payables	1,119,674	–	(114,175)	1,005,499
Total liabilities	1,119,674	–	–	1,119,674
Retained earnings	2,067,512	(8,551)	–	2,058,961

20.2 HKFRS 9, "Financial Instruments"

(a) Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 20.2(b) below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated as the financial assets at fair value through profit or loss the Group held did not qualify as hedge instruments.

The total impact on the Group's loss allowance as at 1 January 2018 is as follows:

	Note	2018 RMB'000
Closing loss allowance as at 31 December 2017 – HKAS 39		**(44,164)**
Increase in provision for trade receivables and contract assets	*ii*	**(11,309)**
Opening loss allowance as at 1 January 2018 – HKFRS 9		**(55,473)**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20 CHANGES IN ACCOUNTING POLICIES (continued)

20.2 HKFRS 9, "Financial Instruments" (continued)

(a) Impact of adoption (continued)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group. These reclassification have no impact on the measurement categories or the presentation of the balance sheet as at 31 December 2017.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables for sales of products and from the provision of services
- Contract assets relating to offshore engineering services
- Other financial assets at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets and applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables and contract assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 20.2(a) above.

While cash and cash equivalents, time deposits with financial institutions and bills receivables are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables, contract assets and other financial assets at amortised cost

For trade receivables and contract assets, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 1 January 2018 and 30 June 2018 is determined by incorporating forward looking information.

Under HKFRS 9, the loss allowance provision for trade receivables and contract assets as at 30 June 2018 reconciles to the opening loss allowance for that provision as follows:

	1 January 2018 RMB'000
As at 1 January 2018	(55,473)
Reversal of loss allowance recognized in profit or loss – trade receivables	1,424
Reversal of loss allowance recognized in profit or loss – contract assets	187
As at 30 June 2018	(53,862)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20 CHANGES IN ACCOUNTING POLICIES (continued)

20.2 HKFRS 9, "Financial Instruments" (continued)

(a) Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

Trade receivables, contract assets and other financial assets at amortised cost (continued)

As at 1 January 2018 and as at 30 June 2018, the internal credit rating of other financial assets at amortised cost were performing as all of these financial assets are considered by management to have low credit risk, and thus the impairment provision recognized during the period was limited to 12 months expected losses and are not material.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 30 to 270 days past due.

(b) Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

- those to be measured at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20 CHANGES IN ACCOUNTING POLICIES (continued)

20.2 HKFRS 9, "Financial Instruments" (continued)

(b) Accounting policies applied from 1 January 2018 (continued)

(i) Investments and other financial assets (continued)

Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI and other financial assets at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20 CHANGES IN ACCOUNTING POLICIES (continued)

20.3 HKFRS 15, "Revenue from Contracts with Customers"

(a) Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated. Following adjustment were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	Note	HKAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	**HKFRS 15 carrying amount 1 January 2018 RMB'000**
Consolidated balance sheet (extract)				
Contract assets	*(i)*	–	89,718	**89,718**
Trade and other receivables	*(i)*	2,260,196	(89,718)	**2,170,478**
Contract liabilities	*(ii)*	–	114,175	**114,175**
Trade and other payables	*(ii)*	1,119,674	(114,175)	**1,005,499**

(i) Hilong offshore engineering services recognize revenue by the way of over time. The Group changed the presentation of the trade receivables to contract assets in the balance sheet to reflect the terminology of HKFRS 15.

(ii) Payments are usually received in advance of the performance under the contracts which are mainly from sales of goods and provision of services. The Group changed the presentation of the advance from customers to contract liabilities in the balance sheet to reflect the terminology of HKFRS 15.

The Group didn't introduce any customer loyalty programme which is likely to be affected by the HKFRS 15.

(b) Accounting policies applied from 1 January 2018

Revenues are recognised when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20 CHANGES IN ACCOUNTING POLICIES (continued)

20.3 HKFRS 15, "Revenue from Contracts with Customers" (continued)

(b) Accounting policies applied from 1 January 2018 (continued)

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

The progress towards complete satisfaction of performance obligation, depending on the nature of the good and service to be transferred, is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

- direct measurements of the value of individual services transferred by the Group to the customer; or

- the Group's efforts or inputs to the satisfaction of the performance obligation.

If contracts involve the sale of multiple goods, goods followed by related services, or multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as contract assets and subsequently amortised when the related revenue is recognised. If the amortisation period is one year or less, the Group elected to recognise the costs as an expense when incurred.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or the a receivable is recorded(whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20 CHANGES IN ACCOUNTING POLICIES (continued)

20.3 HKFRS 15, "Revenue from Contracts with Customers" (continued)

(b) Accounting policies applied from 1 January 2018 (continued)

The following is a description of the accounting policy for the principal revenue streams of the Group.

(i) Revenue from sales of products

The Group manufactures and sells a range of products, including the production of oilfield equipment and coating materials for anti-corrosive and anti-friction purpose. Sales are recognized when the control of the products has transferred, being when the products are delivered to or inspected by customers according to terms of each contract and there is no unfulfilled obligation that could affect the customers to acceptance of the products. Shipping service derived from overseas trading sales of the Group has no significant impact on sales recognition on products as its relative stand-alone selling price is immaterial comparing with other performance obligation based on their contract.

(ii) Revenue from provision of OCTG and linepipe coating services and CWC services

The Group provides OCTG and linepipe coating services, CWC services and pipeline inspection services to domestic and overseas customers. The revenue is recognised overtime upon result is achieved as the Group's performance creates or enhances an asset that the customer controls.

(iii) Revenue from provision of oilfield services

The Group provides a range of oilfield services, including the provision of well drilling services and integrated comprehensive services to oil and gas producers. The Group charges the oil and gas producers at a fixed day rate which will be specific in each contract. Oilfield services revenue is recognised upon completion of each day when services are provided.

(iv) Revenue from provision of offshore engineering services

The offshore engineering division provides full-scale engineering design, simulation analysis, technical support and a variety of engineering construction services to oil and gas industry. Revenue from providing such services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual cost spent relative to the total expected cost.

OTHER INFORMATION

CHANGES IN DIRECTORS' INFORMATION

There were changes in information of directors, which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), since the date of the 2017 Annual Report of the Company as follows:

1. Mr. Yuan Pengbin, non-executive director, ceased to act as the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所), the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and secretary of the CPC party committee of Hilong Group of Companies Ltd.

2. The director's fee of Mr. Yang Qingli, non-executive director, under the letter of appointment was changed to HK$240,000 per annum with effect from 1 June 2018.

3. Mr. Wong Man Chung Francis, independent non-executive director, is an independent non-executive director of Qeeka Home (Cayman) Inc., the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") from 12 July 2018, and he resigned as independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd., the shares of which are listed on the Stock Exchange, with effect from 18 August 2018.

DISCLOSURE OF INTERESTS

A. Directors' interests and short positions in the securities of the Company and its associated corporations

As at 30 June 2018, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	881,581,000[(1)]	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800[(2)]	
	Beneficial owner	760,000	
		994,641,800	58.631%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000[(3)]	
	Beneficial owner	492,000	
		24,792,000	1.461%
Mr. Yuan Pengbin	Beneficial owner	1,151,600	0.068%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Mr. Yang Qingli	Interest of spouse	77,000[(4)]	0.005%

OTHER INFORMATION

Notes:

(1) These shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. As Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust as well as the sole director of Hilong Group Limited, he is deemed to be interested in these shares.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. As Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts as well as the sole director of North Violet Investment Limited and LongZhi Investment Limited, he is deemed to be interested in these shares.

(3) These shares are held by Younger Investment Limited of which Ms. Zhang Shuman is the sole director. Ms. Zhang Shuman is therefore deemed to be interested in these shares.

(4) These shares are held by Ms. Gao Chunyi, spouse of Mr. Yang Qingli. Mr. Yang Qingli is therefore deemed to be interested in these shares.

(b) Long positions in the underlying shares of the Company

Name of Director	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Mr. Yuan Pengbin	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%
Mr. Wang Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%

(c) Long positions in the shares of associated corporation of the Company

Name of Director	Capacity	Name of associated corporation	Number of Shares interested	Percentage of the issued share capital of the associated corporation
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust	Hilong Group Limited	100	100%

OTHER INFORMATION

B. Substantial shareholders' interest or short positions in the securities of the Company

As at 30 June 2018, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	881,581,000[(1)]	51.97%
SCTS Capital Pte Ltd.	Nominee	1,026,950,800[(1)(2)]	60.54%
Standard Chartered Trust (Singapore) Limited	Trustee	1,026,950,800[(1)(2)]	60.54%
Ms. Gao Xia	Interest of spouse	995,241,800[(3)]	58.67%

Notes:

(1) 881,581,000 shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts.

(3) Ms. Gao Xia is the spouse of Mr. Zhang Jun and is therefore deemed to be interested in the shares and underlying shares of the Company in which Mr. Zhang Jun is interested.

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a pre-IPO share option scheme (the "**Pre-IPO Scheme**") on 28 February 2011. The Pre-IPO Scheme commenced on 1 January 2011. The grantees to whom an option has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date of listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing Date**") and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period, which must not be more than 10 years from the Listing Date. During the year of 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO Scheme, have been granted.

OTHER INFORMATION

The following table sets forth particulars of the options granted and outstanding under the Pre-IPO Scheme and their movements during the Interim Period:

Category/ name of grantees	Number of share options					Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
	Outstanding as at 1 January 2018	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2018				
Directors									
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
In aggregate	5,500,000	–	–	–	5,500,000				
Employees of the Group other than Directors									
In aggregate	24,064,300	–	–	–	24,064,300	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Total	29,564,300	–	–	–	29,564,300				

POST-IPO SHARE OPTION SCHEME

The Company adopted another share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. Further details of the Post-IPO Scheme are set out in note 10 to the condensed consolidated interim financial information and the circular of the Company dated 10 April 2013. 20% of the share options granted under the Post-IPO Scheme on 5 February 2014 will be vested on each anniversary of the date of grant until 5 February 2019. Details of movements in the options granted and outstanding under the Post-IPO Scheme during the Interim Period are as follows:

Category/ name of grantees	Number of share options					Exercise price HK$	Closing price immediately before the date of grant HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
	Outstanding as at 1 January 2018	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2018					
Employees of the Group other than Directors										
In aggregate	17,221,200	–	–	–	17,221,200	5.93	5.72	–	5 February 2014	5 February 2015– 4 February 2024

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules throughout the Interim Period.

ISSUE OF DEBT SECURITIES

On 18 January 2018, the Company issued US$60,000,000 7.25% senior notes due 2020 (the "**Additional 2020 Notes**") to be consolidated and to form a single series with the US$250,000,000 7.25% senior notes due 2020 the Company previously issued on 22 June 2017 (the "**2020 Notes**"). The offer price of the Additional 2020 Notes was 100.00% of the principal amount of the Additional 2020 Notes plus accrued interest from and including 22 December 2017 to (but excluding) 18 January 2018. The principal terms of the Additional 2020 Notes are the same as the terms of the 2020 Notes. The net proceeds of the Additional 2020 Notes amount to approximately US$59 million and will be used outside the PRC to refinance the Group's existing indebtedness, for working capital and general corporate purposes. The Additional 2020 Notes, guaranteed by certain non-PRC subsidiaries of the Company, will bear interest from 22 December 2017 at 7.25% per annum payable semi-annually in arrears on 22 June and 22 December of each year. The Additional 2020 Notes will mature on 22 June 2020. The Additional Notes are listed on the Stock Exchange on 19 January 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF INTERIM REPORT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save as disclosed in this report, there was no purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the Interim Period.

APPRECIATION

On behalf of the Board, I wish to express my sincere gratitude to our shareholders and business partners for their continued support, and to our employees for their dedication and hard work.

For and on behalf of the Board
Hilong Holding Limited
ZHANG Jun
Chairman

23 August 2018