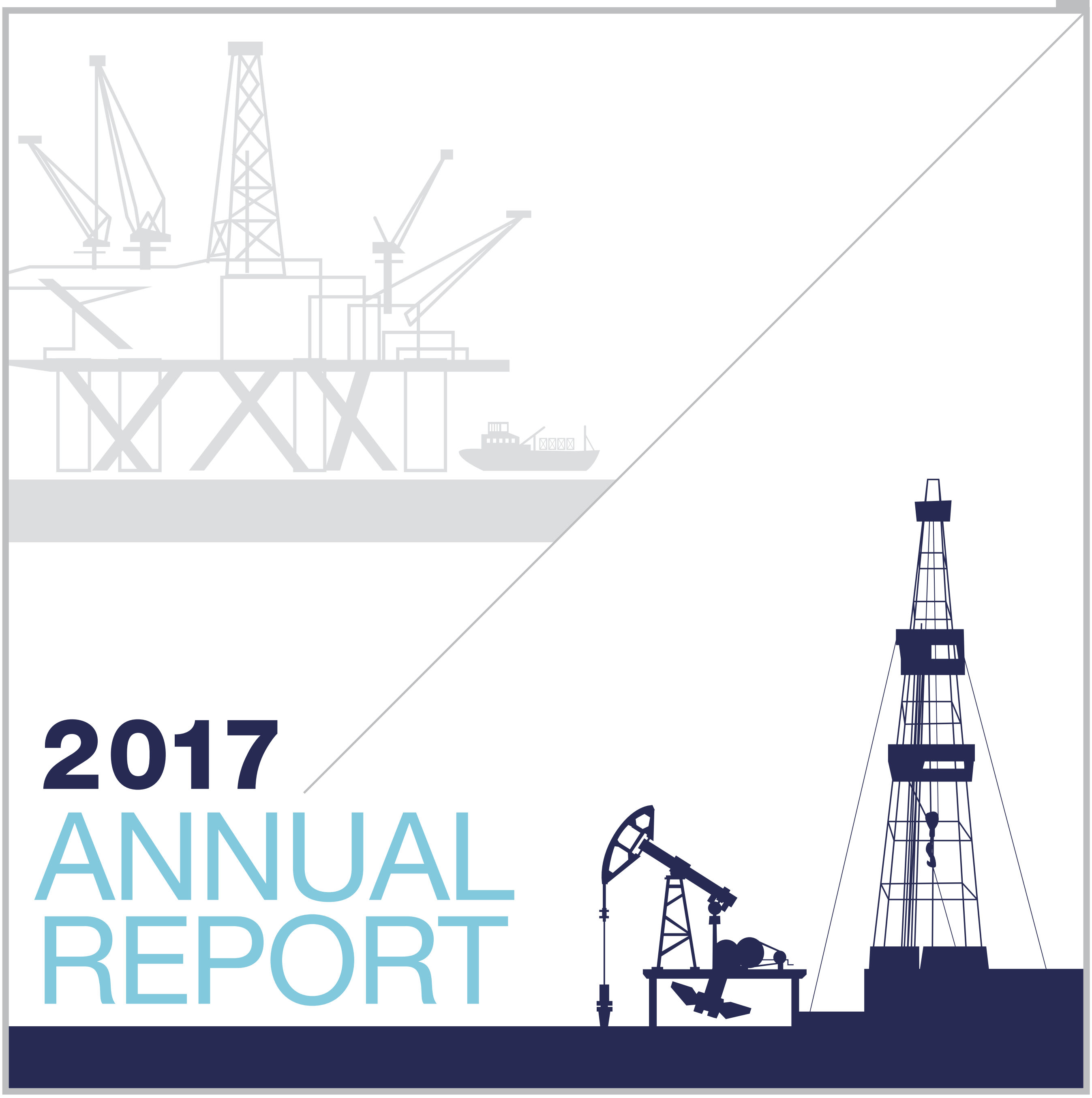
海隆控股有限公司*

Hilong Holding Limited

PURSUE GROWTH IN A STEADY PACE



2017 ANNUAL REPORT

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1623

* For identification purpose only

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Hilong Holding Limited ("Hilong", "we" or the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 to our shareholders.

RESULTS

In 2017, the international oil price continued its recovery from last year, particularly strong in the second half of the year due to increased demand resulting from a strong global economy as well as production limitation agreement reached between the OPEC and key non-OPEC oil countries such as Russia. Whilst there was growing optimism that the oil price would maintain at its current level, the world's major upstream oil companies remained cautious about increasing capital expenditures too fast and focused more on the quality and return of their investment profiles as the overall market condition still remain challenging. However, with the benefit of being an agile and diversified player in the market, Hilong in 2017 solidified its position as one of the leading players in the Russian drill pipe market, continued its expansion in the overseas onshore oilfield service segment and secured milestone offshore engineering service contracts in Southeast Asia. As a result, our revenue in 2017 increased by 38.4% to approximately RMB2,669.3 million from RMB1,929.0 million in 2016. Net profit amounted to RMB125.7 million, representing a reduction of 1.7% from RMB127.9 million in 2016.

YEAR UNDER REVIEW

2017 was a year for Hilong to continue to solidify its strategy to expand its business internationally. With efforts devoted by all staff members of the Group, Hilong's operation results rebounded from 2016.

The oilfield services segment generated revenue of RMB880.7 million in 2017, representing an increase of 24.3% from 2016 primarily resulting from improvement of overall average utilization rate, growth from the integrated comprehensive services and increased trading service revenues. While maintaining healthy operations, the oilfield services segment diversified its businesses. The Company was awarded an integrated comprehensive technical services contract in Pakistan which relates to provision of integrated technical services project for a total of 8+1 deep oil wells.

Oilfield equipment manufacturing and services segment achieved total revenue of RMB1,316.2 million in 2017, representing an increase of 68.5% from 2016, due to strong growth in the Russian and Central Asian market as Hilong has become one of the key players in the drill pipes market in Russia. We have also successfully relocated a second production line from the Middle East to Russia during the year in order to cope with the local demand. The revenue of the OCTG coating services business experienced a slight decrease.

Revenue from line pipe technology and services segment declined from RMB371.3 million in 2016 to RMB329.5 million in 2017. This resulted from the reduction of the OCTG coating materials, line pipe coating materials and line pipe coating service businesses, partially offset by the increases in Corrosion Resistant Alloy (CRA) lined pipe, Concrete Weight Coating (CWC) services and inspection service businesses. In relation to line pipe anti-corrosive service, we strengthened relationships with steel companies in China and successfully obtained several projects including the Sinopec-Ri-Jing Pipeline Project, Yunnan Energy Investment Project, Pakistan PPL Project, and Indonesia Project. We also signed a strategic cooperation agreement with a leading Chinese pipeline company and are in discussions to establish similar relationships with other companies. One point worth noting is that the revenue from CRA lined pipe business increased more than doubled in 2017 to RMB27.0 million from that of 2016, this is primarily due to improvements in domestic market. Additionally, a large CWC project contributed revenue of RMB65.6 million in 2017, making a 130.9% increase in revenue from the CWC services business in 2016. Intelligent pipeline inspection in China represents a key growth area for the segment and we nearly doubled the revenue for this area in 2017. In overseas markets, following the successful obtaining of several certifications, we are now on the qualified suppliers list of customers in Kuwait and the UK.

The offshore engineering business continued to improve and achieved revenue of RMB142.8 million in 2017, compared with RMB67.8 million in 2016. This is primarily due to the increased utilization rate of our vessel, Hilong 106. In addition, we have built a strong backlog by securing a number of projects during the year that will enable our vessel to increase its utilization rate much further in 2018.

PROSPECTS

In 2018, with the continued recovery of the oil and gas industry, and the potential increase in global capital expenditure, all business segments of the Company have already begun to show a strong rebound trend. For oilfield services, we will start mechanized land drilling activities in Oman after we successfully signed two contracts each with an initial term of 10 years. We will also actively seek to relocate our non-performing rigs to locations where we can achieve higher utilization rate and profitability. On top of maintaining a steady growth for drilling services globally, one of Hilong's traditional businesses with strong advantages, the Company will leverage its success in the integrated oilfield services in Pakistan and continue to put in effort to secure further integrated services contracts. In addition, Hilong will continue to pursue new opportunities in the market, including the commencement of cooperation with experienced subcontractors, actively exploring and studying new markets, conducting qualification review and bidding, developing new types of business and enlarging customers base. The drill pipe business has shown a very strong rebound in 2017 and we will focus on high value-added products in 2018. Now that we have successfully relocated a second production line from the Middle East to Russia, Russia and Central Asia will remain as the most important market that we will focus on in 2018 as we have already secured a number of drill pipes contracts in the region. Also, the Company will increase its effort in promoting sales of high value-added non-API drill pipes and related services in order to increase profitability. For OCTG coating services, Hilong will continue to focus on market research and development, and actively nurture new market demands to allocate and utilize the production capacity in the best way and to achieve steady growth during the new development stage. Hilong will continue to implement the development strategy emphasizing on diversification, high-end development and internationalization for the line pipe technology and services segment. Apart from continuing to actively take part in major domestic projects and strengthen its market position, Hilong will continue to increase its efforts to explore overseas markets. The Company will also accelerate the development of its pipeline inspection business to further explore the market and strengthen the market position. In 2018, the offshore engineering business will continue to improve as we have already secured a number contracts which will enable us to achieve much higher utilization rate for our vessel. It is anticipated that we will gain invaluable experience and reputation through executing these projects. This will also solidify our expertise in offshore engineering in the international environment and help us to win more contracts.

In addition, we will continue to invest in research and development and stay at the forefront of technology innovation. In today's market, technology is the key to sustain long term profitability. We aim to continue to implement upgrades to our existing products and commercialize new products backed with leading technologies that are currently under development.

The Company firmly believes that with the leadership of the Board, it is able to seize the opportunities and cope with the challenges through persistence and perseverance, and is able to maximize the value for all shareholders, customers, staff, and the society.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to our shareholders, management team and staff. Neither the past achievement nor the future development of the Group would be possible without their support and contribution.

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. Lee Siang Chin (1)
Mr. Liu Haisheng (劉海勝)
Mr. Wong Man Chung Francis (黃文宗)(2)
Mr. Shi Zheyan (施哲彥)(3)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Zhang Shuman (張姝嫚)(4)
Ms. Cheng Pik Yuk (鄭碧玉)(5)

AUDIT COMMITTEE

Mr. Lee Siang Chin
(Chairman of Audit Committee)(1)
Mr. Wong Man Chung Francis (黃文宗)
(Chairman of Audit Committee)(2)
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. Lee Siang Chin(1)
Mr. Wong Man Chung Francis (黃文宗)(2)

NOMINATION COMMITTEE

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

JOINT COMPANY SECRETARIES/ COMPANY SECRETARY

Ms. Zhang Shuman (張姝嫚)(6)
Ms. Cheng Pik Yuk (鄭碧玉)(7)

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER

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Baoshan Industrial Zone
Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3206, Tower One
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited(8)
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Note: (1) Resignation took effect on 24 March 2017
(2) Appointment took effect on 24 March 2017
(3) Appointment took effect on 25 August 2017
(4) Resignation took effect on 24 March 2017
(5) Appointment took effect on 24 March 2017
(6) Resignation took effect on 24 March 2017
(7) Upon resignation of Ms. Zhang Shuman as joint company secretary, Ms. Cheng Pik Yuk has become the sole company secretary on 24 March 2017
(8) Name changed from Codan Trust Company (Cayman) Limited to Conyers Trust Company (Cayman) Limited with effect from 30 March 2017

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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FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2017		2016	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**1,037,083**	**38.9**	510,056	26.4
– Oil country tubular goods ("OCTG") coating services	**161,863**	**6.1**	202,671	10.5
– Drill pipe components	**67,412**	**2.5**	24,801	1.3
– Hardbanding	**18,350**	**0.7**	24,018	1.3
– Others	**31,524**	**1.1**	19,644	1.0
Subtotal	**1,316,232**	**49.3**	781,190	40.5
Line pipe technology and services				
– OCTG coating materials	**54,041**	**2.0**	86,078	4.5
– Oil and gas line pipe coating materials	**86,634**	**3.2**	104,045	5.4
– Oil and gas line pipe coating services	**81,172**	**3.0**	136,067	7.1
– Corrosion Resistant Alloy ("CRA") lined pipe	**27,021**	**1.0**	8,039	0.4
– Concrete Weighted Coating ("CWC") services	**65,576**	**2.5**	28,404	1.5
– Pipeline inspection services	**15,092**	**0.6**	8,675	0.4
Subtotal	**329,536**	**12.3**	371,308	19.3
Oilfield services	**880,745**	**33.0**	708,699	36.7
Offshore engineering services	**142,834**	**5.4**	67,840	3.5
Total revenue	**2,669,347**	**100.0**	1,929,037	100.0

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

	Year ended 31 December			
	2017		2016	
	RMB'000	%	RMB'000	%
Russia, Central Asia and East Europe	**908,926**	**34.1**	479,344	24.8
The PRC	**799,886**	**30.0**	716,924	37.2
South and Southeast Asia	**427,483**	**16.0**	239,449	12.4
North and South America	**239,731**	**9.0**	242,997	12.6
Africa	**238,222**	**8.9**	211,443	11.0
Middle East	**53,916**	**2.0**	38,852	2.0
Others	**1,183**	**0.0**	28	0.0
Total	**2,669,347**	**100.0**	1,929,037	100.0

Revenue increased by RMB740.3 million, or 38.4%, from RMB1,929.0 million in 2016 to RMB2,669.3 million in 2017. Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment, oilfield services segment and offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB535.0 million, or 68.5%, from RMB781.2 million in 2016 to RMB1,316.2 million in 2017. Such increase primarily reflected a significant increase in revenue derived from sales of drill pipes and drill pipe components in the Russia and Central Asia market.

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

	Year ended 31 December	
	2017	2016
Sales of drill pipes		
– International market		
– volume (tonnes)	**51,600**	23,138
– unit price (RMB/tonne)	**18,138**	18,108
Subtotal (RMB'000)	**935,893**	418,978
– The PRC market		
– volume (tonnes)	**6,642**	5,366
– unit price (RMB/tonne)	**15,234**	16,973
Subtotal (RMB'000)	**101,190**	91,078
Total (RMB'000)	**1,037,083**	510,056

Revenue from sales of drill pipes in the international market increased by RMB516.9 million, or 123.4%, from RMB419.0 million in 2016 to RMB935.9 million in 2017. The increase primarily reflected a significant increase of 123.0% in the volume of drill pipes sold from 23,138 tonnes in 2016 to 51,600 tonnes in 2017. The increase in the sales volume primarily reflected the large demands from the Russia and Central Asia market and the enhancement of Hilong's brand recognition in the Russia and Central Asia market. The average selling price remained stable because Hilong has built up strong relationships with its Russia and Central Asia customers for years.

Revenue from sales of drill pipes in the PRC market increased by RMB10.1 million, or 11.1%, from RMB91.1 million in 2016 to RMB101.2 million in 2017. The increase primarily reflected a 23.8% increase in volume of drill pipes sold in the PRC market from 5,366 tonnes in 2016 to 6,642 tonnes in 2017, partly offset by a 10.2% decrease in average selling price sold in the PRC market from RMB16,973 per tonne in 2016 to RMB15,234 per tonne in 2017. The increase in the sales volume primarily reflected increased market share due to the competitive price of drill pipes with high quality. While the decrease in average selling price primarily reflected the guideline price of American Petroleum Institute ("API") drill pipe products determined based on annual bid of both CNPC and Sinopec Group decreased in 2017 compared to that in 2016.

Revenue from OCTG coating services decreased by RMB40.8 million, or 20.1%, from RMB202.7 million in 2016 to RMB161.9 million in 2017. The decrease was mainly due to upgrading of the OCTG production line which resulted in production decreased in the second half of 2017.

Revenue from sales of drill pipe components increased by RMB42.6 million, or 171.8%, from RMB24.8 million in 2016 to RMB67.4 million in 2017. The increase primarily reflected the increase in demands for tool joints and pipes from customers in 2017 compared to that in 2016.

Line pipe technology and services. Revenue from the line pipe technology and services segment decreased by RMB41.8 million, or 11.3%, from RMB371.3 million in 2016 to RMB329.5 million in 2017. Such decrease primarily reflected a decrease in the revenue derived from OCTG coating materials, oil and gas line pipe coating materials and oil and gas line pipe coating services, partially offset by the increase in the revenue derived from CRA lined pipe and CWC services.

The decrease in revenue derived from OCTG coating materials, oil and gas line pipe coating materials and coating services was mainly due to the upgrading of the coating production line which resulted in production decreased in the seconal half of 2017.

The increase in revenue derived from CRA lined pipe services primarily reflected that our capacities were occupied by the Dongfang 13-2 gas field projects and gas gathering pipeline reconstruction project.

The increase in revenue from CWC services mainly reflected that our capacities were occupied by the subsea crude oil pipeline anti-corrosion contract from Zhejiang Petrochemical Co. Limited in 2017. It reflected that the Company's capability in line pipe engineering is accepted and highly recognized by major operators in the industry.

Oilfield services. Revenue from the oilfield services segment increased by RMB172.0 million, or 24.3%, from RMB708.7 million in 2016 to RMB880.7 million in 2017. Such increase was attributable to (i) higher oilfield services revenue generated from the improvement of overall average utilization rate of the drilling rigs, and (ii) the increase in revenue from integrated comprehensive services.

Offshore engineering services. Revenue from the offshore engineering services segment in 2017 mainly represented revenue of RMB94.3 million from Phase 4 Development Project of Block B-17-01 in Southeast Asia, revenue of RMB24.0 million from the TIMAS PHE WMO Project and revenue of RMB12 million from the Large Steel Cylinder (experimental stage) Project of the New Sanya Airport.

Cost of Sales/Services

Cost of sales/services increased by RMB561.5 million, or 44.5%, from RMB1,262.2 million in 2016 to RMB1,823.7 million in 2017. Such increase primarily reflected an increase in the cost of the oilfield equipment manufacturing and services segment.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB178.8 million, or 26.8%, from RMB666.8 million in 2016 to RMB845.6 million in 2017. The increase resulted from the increasing sales of drill pipe in 2017. Gross profit margin was 31.7% in 2017, decreased by 2.9% compared with 2016. Such decrease was mainly due to the development in integrated comprehensive services in 2017 which has a lower gross profit margin compared with the Company's average gross profit margin.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB43.6 million, or 34.9%, from RMB125.1 million in 2016 to RMB168.7 million in 2017, which fluctuated by similar percentage as revenue, accounting for 6.3% of revenue in 2017 while 6.5% of revenue in 2016. The increase was mainly due to the increase in freight fee from the increase of drill pipe sales in the Russia and Central Asia market.

Administrative Expenses

Administrative expenses increased by RMB45.8 million, or 14.7%, from RMB311.6 million in 2016 to RMB357.4 million in 2017. Such increase primarily reflected the increase in staff costs, travelling expenses and office expenses.

Other (Losses)/Gains – Net

The Group recognized net loss of RMB94.9 million in 2017 and net gain of RMB262.4 million in 2016. The net loss recognized in 2017 reflected an exchange loss of RMB114.2 million from the operating activities as a combined result of the depreciation of the United States Dollar ("USD") and Hong Kong Dollar ("HKD"), partially offset by government grants of RMB10.6 million in relation to new and high-technology projects. The net gain recognized in 2016 reflected a net gain of RMB222.1 million in foreign exchange gains and RMB22.8 million of government grants in relation to new and high-technology projects.

Finance Costs – Net

Finance costs – net decreased by RMB266.4 million, or 82.2%, from RMB324.1 million in 2016 to RMB57.7 million in 2017. Such decrease primarily reflected an exchange gain of RMB122.6 million from the financing activities resulting from the depreciation of USD and HKD, while in 2016 the exchange loss was RMB157.3 million. The decrease in finance costs – net was partially offset by the increase in interest expense from bank borrowings from RMB161.1 million in 2016 to RMB196.2 million in 2017.

Profit before Income Tax

As a result of the foregoing, profit before income tax decreased from RMB175.6 million in 2016 to RMB171.6 million in 2017.

Income Tax Expense

The Group recognized income tax expense of RMB47.7 million in 2016 and RMB45.9 million in 2017. The effective tax rate was approximately 27.1% in 2016 and 26.8% in 2017.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company decreased from RMB124.6 million in 2016 to RMB119.2 million in 2017.

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 years indicated:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Inventory	**848,700**	798,759
Turnover days of inventory (in days)[1]	**164**	236

[1] Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2016 and 2017. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The decrease in inventory turnover days from 236 days as at 31 December 2016 to 164 days as at 31 December 2017 primarily reflected higher revenue derived from sales of drill pipe, which requires more consumption of inventory.

Trade and Other Receivables

Trade and other receivables consist of trade receivables (due from third parties and related parties), other receivables, bills receivable, prepayments and dividend receivables. The following table sets forth the components of the trade and other receivables outstanding as at the dates indicated:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables		
– Due from third parties	**1,901,756**	1,643,817
– Due from related parties	**5,925**	12,869
– Less: Provision for impairment of receivables	**(44,164)**	(33,511)
Trade receivables – net	**1,863,517**	1,623,175
Other receivables		
– Due from third parties	**95,055**	91,861
– Due from related parties	**107,262**	104,618
Other receivables	**202,317**	196,479
Bills receivable	**23,013**	34,073
Prepayments	**166,312**	184,894
Dividend receivables	**5,037**	1,550
Total	**2,260,196**	2,040,171

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 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables, net		
– Within 90 days	**814,464**	623,899
– Over 90 days and within 180 days	**195,656**	134,241
– Over 180 days and within 360 days	**332,458**	234,892
– Over 360 days and within 720 days	**266,502**	510,644
– Over 720 days	**254,437**	119,499
	1,863,517	1,623,175
Turnover days of trade receivables, net(1)	**238**	298

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2016 and 2017. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

As at 31 December 2017, trade receivables of RMB1,019.8 million remained unpaid beyond the general credit period but were not impaired, representing 54.7% of the Group's total trade receivables after impairment, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from the subsidiaries' related party entities. As at 31 December 2017, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

The decrease in turnover days of trade receivables from 298 days as at 31 December 2016 to 238 days as at 31 December 2017 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was accelerated in 2017.

Trade and Other Payables

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Bills payable	**165,683**	96,287
Trade payables		
– Due to related parties	**30,265**	–
– Due to third parties	**645,654**	511,514
Other payables		
– Due to related parties	**36,021**	97,386
– Due to third parties	**34,815**	38,579
Staff salaries and welfare payables	**32,843**	45,174
Advance from customers	**114,175**	95,367
Interest payables	**5,362**	21,807
Accrued taxes (other than income tax)	**40,675**	36,108
Dividends payable	**3,482**	1,463
Other liabilities	**10,699**	7,227
	1,119,674	950,912

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 years indicated:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade payables, gross		
– Within 90 days	**474,009**	325,061
– Over 90 days and within 180 days	**176,756**	170,397
– Over 180 days and within 360 days	**11,500**	10,400
– Over 360 days and within 720 days	**8,978**	5,458
– Over 720 days	**4,676**	198
	675,919	511,514
Turnover days of trade payables(1)	**119**	176

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2016 and 2017. Average trade payables equals to balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2016 to 31 December 2017 primarily reflected the increase in purchase in 2017.

BUSINESS REVIEW

On the path to recovery

Oil price recovered in 2017, particularly strong in the second half thanks to the robust increase in demand led by China and India and the efforts to limit production by the Organisation of the Petroleum Exporting Countries ("OPEC") and Russia. Whilst there was growing optimism that the oil price would maintain at its current level, the world's upstream oil majors remain cautious about increasing capital expenditures too fast and focus more on the quality and return profiles of their investments. With the benefit of being an agile and diversified player in the market, Hilong in 2017 rapidly expanded in the US oilfield equipment market, continued its expansion in the overseas land oilfield services segment and secured milestone offshore engineering contracts in Southeast Asia. As a result, our revenue in 2017 increased by 38.4% to approximately RMB2,669.3 million from RMB1,929.0 million in 2016. Net profit amounted to RMB125.7 million, representing a marginal reduction of 1.7% from RMB127.9 million in 2016.

Oilfield Equipment Manufacturing and Services – rapid overseas expansion

Oilfield Equipment Manufacturing and Services segment contributed revenue of RMB1,316.2 million in 2017, representing an increase of 68.5% from 2016. Segment gross profit margin maintained.

We recorded a 104% increase in drill pipe shipment from 29 thousand tonnes in 2016 to 58 thousand tonnes in 2017. The growth resulted from our increased presence in Russia, to which we relocated an additional production line from the Middle East, and our business in the US and Canada delivering strong results. Our revenue in North America more than doubled in 2017 and, in particular, our drill pipe rental business model developed rapidly.

Sales of Oil Country Tubular Goods (OCTG) coating declined by 20.1% from RMB202.7 million in 2016 to RMB161.9 million in 2017. Costs in coating factories reduced significantly during the year through strengthening cost management, increasing production efficiency and replacing with cost-effective abrasives. Leveraging on our establishment in Russia's drill pipe market, we have held constructive dialogues with major oil companies to expand OCTG business to Russia and already successfully obtained orders of millions of meters with expected delivery in 2018. We nearly tripled the revenue from OCTG factory in the US and its profit nearly quintupled to RMB11.3 million due to increased efficiency and quality test pass rates.

Wider acknowledgement of the quality of our high-margin hardbanding wire products and innovation maintained our pricing power. In particular, we made a breakthrough and satisfied an overseas customer's demand to significantly increase welding thickness from a maximum of 4.0 mm to 7.0 mm.

Integrated Oilfield Services – pursue high return and long-term projects

Oilfield services generated revenue of RMB880.7 million in 2017, representing an increase of 24.3% from 2016, primarily resulting from improvement of overall average utilization rate and increased trading and integrated comprehensive services revenue.

In line with its continuous efforts to develop its integrated comprehensive service capability to provide, in addition to drilling technical services including drilling fluids, directional/horizontal wells, cementing casing, drilling bit and completion. Hilong was awarded an integrated technical services contract in Pakistan. This demonstrates that our capability to provide such services become increasingly mature and are accepted and highly recognised by major operators in the industry. We optimised market positioning and provide customer with drilling service and to relocated non-performing rigs from South America to Pakistan to pursue further opportunities.

Going forward, we will continue to focus on investing in high return and long term projects. In January 2018, we entered into drilling service contracts with Petroleum Development Oman LLC for two rigs in Oman with an initial operational period of 10 years which can be further extended for up to 5 years. This long-term award resulted from our improved service efficiency and track record of Quality, Health, Safety and Environmental performance that create value and reassurance for customers. The two rigs have high automation and mobility.

Line Pipe Technology and Services – mixed performance in a diversified portfolio

Revenue from line pipe technology and services segment declined from RMB371.3 million in 2016 to RMB329.5 million in 2017. This resulted from reduction in OCTG coating materials, line pipe coating materials and line pipe coating service businesses, partially offset by increases in Corrosion Resistant Alloy (CRA) lined pipe sales, Concrete Weight Coating (CWC) services and pipeline inner inspection services.

In relation to line pipe anti-corrosive service, we strengthened relationships with steel companies in China and successfully obtained several projects including the Sinopec Ri Jing Pipeline Project, Yunnan Energy Investment Project, Pakistan PPL Project, and Indonesia Project. We also signed a strategic cooperation agreement with a leading Chinese pipeline company and are in discussions to establish similar relationships with other companies. Revenue from CRA lined pipe businesses more than doubled in 2017 to RMB27.0 million, thanks to improvements in domestic market. Additionally, a large CWC project contributed revenue of RMB65.6 million in 2017, representing a 130.9% increase in revenue from CWC services in 2016. Intelligent pipeline inspection in China represents a key growth area for the segment and we nearly doubled revenue from this area in 2017. In overseas markets, following successfully obtaining several certifications, we are now on the qualified suppliers list of customers in Kuwait and the UK.

Offshore Engineering Services – broke into more overseas markets

Offshore business is generally more sensitive to oil price than land activities and we saw an increase in opportunities following recovery in oil price. Offshore engineering contributed RMB142.8 million of revenue in 2017, compared with RMB67.8 million in 2016. We expanded into the overseas market through providing offshore transportation and installation services for three wellhead platforms, subsea pipelines and host tie-ins for CUEL Limited at the northern tip of the gulf of Thailand. We signed contracts to rent out our vessel "Hilong 106" to Saipem S.p.A to serve in the Bay of Bengal, as well as entering into a smaller contract with Malaysia Marine and Heavy Engineering Holdings Berhad to provide wellhead platform installation services in Malaysia. These contracts will increase the utilization rate for the vessel significantly in 2018. The experience gained over executing these projects will lay a solid foundation for us to compete in international markets.

In addition, we also completed the offshore transportation turnkey contract for the construction of Sanya Airport in the first half of 2017.

Win through technology advances

We acknowledge that technology innovations will be vital to remain as a profitable player in the oil industry. Having established three research and development (R&D) centers in the areas of tube, chemical and offshore engineering, we have set the following clear goals for R&D:

- Technology upgrade – benchmark our products against international industry peers with advanced technologies to find differences and upgrade accordingly;

- Commercialise new products/technologies – commercialisation becomes the new norm for R&D to reach sustainable growth; replace low-margin old generation products with innovative products; build a new products portfolio; focus on own R&D and also learn from others (eg other companies, universities); pursuit opportunities to acquire technology companies;

- Own R&D innovation – solve issues that money cannot buy; continue investment throughout industry cycle.

To achieve these goals, we are looking to: strengthen our R&D management structure and attract more talents; establish responsibilities, accountabilities and key performance indicators in respect of project management; conduct thorough financial and operational analysis of projects prior to execution; and monitor project progress and evaluate outcome.

In addition to development of chemicals including clean fracturing fluid-to and those to increase oil production and improve drilling mud performance, the innovation opportunities we are currently looking at include:

- Development of inside anti-corrosive coating for oil gathering pipelines which is a cheaper solution than CRA. This utilises our existing competitive coating materials development capabilities, the locations of our coating factories and our pipeline connection technologies.

- Long-distance natural gas and city pipeline inspection. Government policy generally requires inspection every 3 to 8 years in China. We have been exploring opportunities in robot equipment and map design, software coding and data analysis.

- Employing artificial intelligence in oil and natural gas fields. These include provision of software and related hardware and data analysis of pipeline monitor and oilfield alarm systems. Such technology has already been accepted by the industry.

Human Resource

Hilong continued to strengthen the organisation and capabilities of its core management team, highlighting the leading role of technological innovation and talents in the development of the Group. We reformed our remuneration policies, intensified incentives, and achieved healthy control of human resources expenses. Specifically:

- Deepened efforts to bring in industry-leading management and technical talents for our new strategic businesses, while internally selecting a group of outstanding management talents, enriching the core management team and optimising age and knowledge balances.

- Reformed salary incentives and performance assessments of Group's management personnel, establishing a remuneration management mechanism that is oriented towards "roles, capabilities and performance" and strengthened the link between management remuneration and profits and budget completion rate, increasing incentives and allowing increased income gap among the Company through increasing reward for excellence and penalising poor performance.

- Transformed the way human resource budget is managed and the people management model, with "total output (sales) determining total labor cost" as a goal. We achieved our overall labor cost control in 2017 and also significantly lowered labor cost per unit.

- Strengthened the leading role of scientific research and technology advance in the development of the Group. The focus was to optimise the setup of our overall technology management institutions and research and management centers, all business unit general managers are responsible for coordinating the management of science and technology in their respective units, and to provide organisation and personnel support to promote continuous technological innovation and improvement.

Procurement

We have established a comprehensive procurement management mechanism. We have combined procurement functions in Shanghai, applying centralised management to reduce costs and improve efficiency. We continued to maintain close cooperation with steel producers and signed annual purchase agreements to obtain price concessions. We reduced costs through improvements in management such as price comparisons, optimising the balance between inventory level and cash flow. While reducing costs, we also focused on the quality of procurement and regarded quality as one of the main key performance indicators. In addition, we used process management to manage payments, improving cash flow.

Outlook

Since joining a group of Chinese companies in the "One Belt One Road" initiatives supported by the Chinese government, Hilong has come a long way in internationalisation. Our courage and knowledge gained during this journey have enabled us to steer through industry downturn. Looking ahead, with diversified product and service portfolios, a strategy to differentiate through technology advances, adherence to internationalisation efforts to improve operational efficiency and provision of integrated comprehensive services to increase customer value, we are well positioned to gain from industry recovery.

Oilfield Equipment Manufacturing and Services

As a major revenue stream, oilfield equipment manufacturing and services segment lays a solid foundation for the Group. Because of the fierce price competition in China, we believed that the quality and our drilling pipes and OCTG coating was not valued. However, we successfully increased our presence in Russia and now is one of the leading drill pipe manufactures in that region. With the relocation of additional production line, we now have two production lines in Russia. Localised production will hedge currency and cost risks and also bring products more quickly to our customers. In 2018, we will continue to work closely with our Russian customers and seek opportunities to increase our OCTG materials. Having developed a large portfolio of non-API drill pipes, we will continue to promote the sales of non-API drill pipe products and also look into high end products such as intelligent drill pipes.

Shale activities have been increasing dramatically in North America due to technology advances and the increased oil price has also been encouraging additional increase. We saw a surge in revenue from that region in 2017 in relation to both drill pipes and OCTG coating. A fall in drill pipe inventory level was spotted in North Americas and we expect to see further development in 2018 and beyond. In addition, we will continue to seek expansion in other markets and capture market dynamics.

Oilfield Services

With stabilisation in oil price which is now above many upstream companies' breakeven points, oilfield services segment is expected to benefit from a pickup in drilling service demand. This would improve utilisation rate of our drilling rigs. We will continue to focus on market expansion and provide high end, featured and custom services. For the execution of existing contract, emphasis will be placed on Quality, Health, Safety and Environmental performance and we will maintain close contact with our customers. With the successfulness in obtaining integrated service contract and increase revenue from technical services, we will continue to further pursue an integrated service strategy and seek further opportunities in Pakistan and other countries. After successfully securing a few contracts, the asset-light nature of technical services is expected to further make our development dependent less on high capital expenditure. We are also actively looking to enter the nature gas and renewable markets.

Line Pipe Technology and Services

With a diversified product portfolio, line pipe technology and services segment will continue to seek to provide high end product and services and pursue internationalisation. We will continue to work with our current steel company partners and are actively seeking opportunities to establish strategic relationships with others. With revenue from CRA business doubled this year, we will continue to further expand this business. In addition, we see an increased demand for CWC services in 2018 and have been bidding on a number of contracts.

Tarim China is currently the most significant market for pipeline inspection and business development is expected to accelerate in 2018. With a strategic focusing on investing in R&D for long-distance nature gas and city pipeline inspection, we expect to see this area to be a more significant revenue stream in the future.

Offshore Engineering Services

Our pipe-laying and derrick vessel Hilong 106 was acquired and started its service in 2014. We have since then successfully cooperated with Chinese local companies and also completed TIMAS project in Indonesia. With oil price recovery in 2017, we broke into Malaysia and Thailand markets and expect to further build our reputation in Southeast Asia, which would allow the vessel to be fully utilised in 2018. Going forward, we expect to see an improvement in subsea activities and will continue to seek opportunities in Asia and also in other regions.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net cash generated from operating activities	**30,608**	139,322
Net cash used in investing activities	**(179,055)**	(94,515)
Net cash used in financing activities	**(101,343)**	(203,060)
Net decrease in cash and cash equivalents	**(249,790)**	(158,253)
Exchange losses on cash and cash equivalents	**(18,618)**	(5,689)
Cash and cash equivalents at beginning of the year	**657,422**	821,364
Cash and cash equivalents at end of the year	**389,014**	657,422

As at 31 December 2017, cash and cash equivalents are mainly denominated in RMB, USD, RUB, NGN, AED, PKR and CAD.

Operating Activities

Net cash generated from operating activities in 2017 was RMB30.6 million, representing cash generated from operation of RMB314.4 million, partially offset by the interest payment of RMB225.4 million and income tax payment of RMB58.4 million.

Net cash generated from operating activities in 2016 was RMB139.3 million, representing cash from operations of RMB321.2 million, interest payment of RMB140.5 million and income tax payment of RMB47.4 million.

Investing Activities

Net cash used in investing activities in 2017 was RMB179.1 million, primarily reflecting payment of RMB233.2 million for purchases of property, plant and equipment, partially offset by proceeds of RMB38.2 million from disposal of property, plant and equipment and proceeds of RMB30.4 million from the disposal of a subsidiary of the Group.

Net cash used in investing activities in 2016 was RMB94.5 million, primarily reflecting payment of RMB133.8 million for purchases of property, plant and equipment, partially offset by proceeds of RMB37.8 million from disposal of property, plant and equipment.

Financing Activities

Net cash used in financing activities in 2017 was RMB101.3 million, primarily reflecting (i)repayment of borrowing of RMB2,831.9 million, and (ii) dividends payment of RMB24.3 million, partially offset by proceeds of RMB2,721.7 million from borrowings and net cash inflow of RMB57.3 million arising from security deposit for bank borrowings.

Net cash used in financing activities in 2016 was RMB197.1 million, primarily reflecting (i) repayment of borrowing of RMB1,601.9 million, (ii) payment as security deposit for bank borrowings of RMB70.5 million, and (iii) dividends payment of RMB29.0 million, offset by proceeds of RMB1,512.6 million from borrowings.

Capital Expenditures

Capital expenditures were RMB269.3 million and RMB232.8 million in 2016 and 2017 respectively. The decrease in capital expenditures in 2017 was mainly due to the Group's implementation of capital expenditures saving policy and achieved favourable results in 2017.

Indebtedness

As at 31 December 2017, the outstanding indebtedness of RMB2,449.5 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 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
Bank borrowings – unsecured	**660**	1,703,570
Bank borrowings – secured	**355,261**	–
Senior notes – unsecured	**1,602,591**	–
Less: Current portion of non-current borrowings	**(53,072)**	(386,159)
	1,905,440	1,317,411
Current		
Bank borrowings – secured	**149,575**	512,223
Bank borrowings – unsecured	**341,365**	532,296
Current portion of non-current borrowings	**53,072**	386,159
	544,012	1,430,678
	2,449,452	2,748,089

As at 31 December 2017, borrowings of RMB2,255.5 million were obtained at fixed rate (31 December 2016: RMB788.7 million).

The bank borrowings of RMB108.7 million (31 December 2016: RMB168.9 million) were secured by bank deposits of RMB45.8 million of the Group as at 31 December 2017 (31 December 2016: RMB103.0 million).

As at 31 December 2016, bank borrowings of RMB11.2 million were secured by commercial acceptance bills of the Group. As at 31 December 2017, the Group has fully repaid such borrowings.

As at 31 December 2017, there were bank borrowings of USD3.2 million borrowed by Shanghai Hilong Drill Pipe Co., Ltd., a subsidiary of the Group, which was secured by a non-guaranteed floating income financial products.

As at 31 December 2017, there were bank borrowings of RMB20.0 million (31 December 2016: 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 interest of the Group.

In September 2016, the Company entered into USD loan agreements with a financial institution amounted to USD45.0 million. These loan principals were secured by the ultimate Controlling Shareholder of the Group and Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., one of the related parties of the Group. As at 31 December 2017, the Group had fully repaid the loan.

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounting to RMB400.0 million. As at 31 December 2017, RMB385.0 million were drawn down, out of which RMB19.3 million had been repaid during 2017, the remaining principals are fully repayable from 2018 to 2020.

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 and financial assets at fair value through profit or loss ("FVTPL"). Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 31 December 2017 and 31 December 2016 are as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Total borrowings	**2,449,452**	2,748,089
Less: Cash and cash equivalents	**(389,014)**	(657,422)
Financial assets at FVTPL	**(24,040)**	–
Net debt	**2,036,398**	2,090,667
Total equity	**3,463,775**	3,491,878
Total capital	**5,500,173**	5,582,545
Gearing ratio	**37.02%**	37.45%

Foreign Exchange

The Group mainly operates in the PRC and also has network in various countries and regions around the world. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognizing 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 17.7% appreciation of RMB against the USD from 21 July 2005 to 31 December 2017. 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 42.1% and 37.7% of the total revenue of the Group in 2016 and 2017, respectively.

Staff and Remuneration Policy

As at 31 December 2017, the total number of full-time employees employed by the Group was 2,914 (31 December 2016: 2,608). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2017:

On-site workers	1,797
Administrative	490
Research and development	110
Engineering and technical support	388
Company management	36
Sales, marketing and after-sales services	93
	2,914

Employee costs excluding the Directors' remuneration totalled RMB485,123,000 for 2017.

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. The packages include basic wages, performance related bonuses, 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 announcement, none of the share options granted has been exercised.

BOARD OF DIRECTORS

The Board consists of ten Directors, including two Executive Directors, four Non-executive Directors, and four Independent Non-executive Directors. The table below sets forth the information regarding the Board:

Name	Age	Management Position
ZHANG Jun (張軍)[(1)]	50	Chairman, Executive Director and executive chairman
WANG Tao (汪濤)[(2)]	54	Executive Director and chief executive officer
ZHANG Shuman (張姝嫚)[(3)]	44	Non-executive Director
YUAN Pengbin (袁鵬斌)	59	Non-executive Director
LI Huaiqi (李懷奇)	68	Non-executive Director
YANG Qingli (楊慶理)	61	Non-executive Director
WANG Tao (王濤)	71	Independent Non-executive Director
LEE Siang Chin[(4)]	69	Independent Non-executive Director
LIU Haisheng (劉海勝)	71	Independent Non-executive Director
WONG Man Chung Francis (黃文宗)[(5)]	53	Independent Non-executive Director
SHI Zheyan (施哲彥)[(6)]	61	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 50, is an Executive Director, the chairman of the Board and executive chairman of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. Mr. Zhang served as the chief executive officer of the Company from 2 December 2010 to 15 December 2017, responsible for the overall business operations and strategy formulation of the Company. He was re-designated to executive chairman of the Company on 15 December 2017, responsible for the overall strategic planning of the Group, new market development, and capital market related and investor relations management. Mr. Zhang serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited and the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited. He also serves as the director/senior management of other subsidiaries of the Group. Mr. Zhang has over 27 years of experience in the petroleum industry. From 2001 to 2007, he was engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. During his service as vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was a "Top 10 Influential Leader in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009 (2009中國石油石化裝備製造業十大最具影響力領軍人物)", a title conferred by the National Energy Commission (國家能源委員會). Mr. Zhang is the elder brother of Ms. ZHANG Shuman, Non-executive Director of the Company. He is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

Note: (1) Mr. ZHANG Jun was re-designated from chief executive officer to executive chairman with effect from 15 December 2017
(2) Mr. WANG Tao was re-designated from executive president to chief executive officer with effect from 15 December 2017
(3) Ms. ZHANG Shuman resigned as the chief strategy officer with effect from 24 March 2017
(4) Mr. LEE Siang Chin resigned as an Independent Non-executive Director with effect from 24 March 2017
(5) Mr. WONG Man Chung Francis was appointed as an Independent Non-executive Director with effect from 24 March 2017
(6) Mr. SHI Zheyan was appointed as an Independent Non-executive Director with effect from 25 August 2017

Mr. WANG Tao (汪濤), aged 54, is an Executive Director, chief executive officer and a member of the Nomination Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010 and was re-designated to an Executive Director on 29 March 2012. Mr. Wang served as the executive president of the Company from February 2012 to December 2017, and was re-designated to chief executive officer of the Company on 15 December 2017. He has also served as the director of Hilong Oil Service and Engineering Nigeria Limited since 2010. He also serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited, the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited, and the legal representative of Hilong Group of Companies Ltd.. Mr. Wang also serves as the director/senior management of other subsidiaries of the Group. Mr. Wang has over 29 years of management experience in the petroleum industry, and served as the vice general manager of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2006 to February 2012 and the director of Hilong Drilling & Supply FZE from December 2009 to May 2016. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991, responsible for on-site operation and business administration. From 1991 to 2001, Mr. Wang served as the assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as the vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 44, is a Non-executive Director and a member of the Audit Committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. She was re-designated to a Non-executive Director of the Company on 29 March 2012. Ms. Zhang served as the chief strategy officer of the Company from 2 December 2010 to 24 March 2017, primarily responsible for the financial affairs and strategic investment activities of the Group. She also served as the joint company secretary of the Company from 10 February 2011 to 24 March 2017. Ms. Zhang has over 21 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003. She has been a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. From 2003 to 2006, Ms. Zhang acted as the joint secretary to the board of directors and coordinator of a Chinese joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's Degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the younger sister of Mr. ZHANG Jun, Executive Director and chairman of the Board, executive chairman and substantial and controlling shareholder of the Company.

Mr. YUAN Pengbin (袁鵬斌), aged 59, is a Non-executive Director and a member of the Remuneration Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010. He has served as the chairman of the board of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) since 2005, the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所) since 2006, the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 2011 and a secretary of the CPC party committee of Hilong Group of Companies Ltd. since July 2013. He has over 34 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011, and served as a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特（山西）石油管道塗層有限公司) from 2008 to 2012. Although Mr. Yuan holds managerial positions in our subsidiaries, his role at the Company level is limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Institute (中國石油天然氣集團公司石油管材研究所) from 1983 to 2005 and acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司). Mr. Yuan received a Bachelor's Degree in Engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a Doctoral Degree in Engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer (professor level) in heat treatment. Mr. Yuan is the vice president of the Association for Science and Technology of Bao Shan District, Shanghai, a member of the Association for Science and Technology of Shanghai, the deputy to the National People's Congress of Shanghai and the director of the Petroleum Pipeline Engineering Center of Shanghai (上海市石油管工程中心). Mr. Yuan was elected as the technological talent and the leadership talent of the sixth session and the seventh session of Bao Shan District, Shanghai in 2010 and 2013, respectively, and was elected as the leadership talent of Shanghai in 2011. He was also a member of the National Testing Machine Standards and Technology Committee (全國試驗機標準化技術委員會) and the Failure Analysis Committee of Chinese Mechanical Engineering Society (中國機械工程學會失效分析委員會). He is entitled to the special subsidy from the State Council of the People's Republic of China in 2012.

Mr. LI Huaiqi (李懷奇), aged 68, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 26 August 2011. Mr. Li started to provide commercial and business consultation to the Company in 2012. He is a Senior Economist. Mr. Li had been the Vice Chairman of the Listed Companies Association of Beijing. He was the Deputy Director-General of Advisory Center and Advisor of Expert Committee in China National Petroleum Corporation ("CNPC"). Mr. Li has over 40 years of experience in China's oil and natural gas industry. He worked at Daqing Oilfield, Liaohe Oilfield, Huabei Oilfield of CNPC and Nanhai East Corporation of China National Offshore Oil Corporation ("CNOOC"). In 1984, Mr. Li served as the Deputy Director-General of the President's Office of Nanhai East Corporation of CNOOC. From 1985 to 1990, he served as the Director of Secretariat of Ministry of Petroleum Technology. From August 1990 to March 1992, he studied at the College of Economy of Texas A&M University in the United States. He was also the head of the First CNPC Senior Management's Training Class from August 1991 to February 1992. From June 1992 to October 2001, he served as the Deputy Director-General and Director-General of the International Cooperation Department of CNPC. From August 2001 to June 2009, he was appointed as the Secretary to the Board of PetroChina Company Limited. From June 2009 to April 2011, he was the Deputy Director-General of Advisory Center and Advisor of Project Committee in CNPC. From July 2011 to June 2017, he was the President of Chinese National Committee of World Petroleum Council. In 2008, he was listed among the "Top 100 Secretaries to the Board" of Chinese Listed Companies by Securities Times. In 2009, he received the awards of "Secretary to the Board of Golden Governance Social Responsibility Companies" by Shanghai Securities News and "Best Secretary to the Board Award" at the 9th "Top 100 Chinese Listed Companies Summit" hosted by Warton Economic Institute. He was also selected as the "Excellent Secretary to the Board" in the annual appraisal for 2008–2009 by the Shanghai Stock Exchange.

Mr. YANG Qingli (楊慶理), aged 61, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 21 August 2015. Mr. Yang is a senior engineer of professor level. He has over 35 years of experience in operation technologies, practices and management of petroleum engineering. Mr. Yang started his career in 1982 when he joined Changqing Oilfield as a technician of the drilling team. In 1984, he became the deputy manager of No. 2 Drilling Company of Changqing Petroleum Exploration Bureau (長慶石油勘探局第二鑽井公司) and was mainly in charge of technology, production and operation. In 1998, he served as the assistant to the director of Changqing Petroleum Exploration Bureau (the "Bureau") where he assisted in managing the Bureau's business operation. From 2000 to 2005, Mr. Yang served as the deputy director and Party Committee Secretary of the Bureau, and was in charge of production, safety management, human resources and stability management. During 2005 to 2008, he served as the director of marketing management department and the director of engineering technology and marketing department of China National Petroleum Corporation ("CNPC"), respectively. From 2008 to February 2015, Mr. Yang was the general manager of CNPC Technical Service Company (中國石油天然氣集團公司工程技術分公司) where he was directly in charge of the technology research and development as well as operation and business management of geophysical exploration, drilling, testing, logging, borehole operation and fracturing operated by CNPC. Mr. Yang graduated from East China Petroleum Institute (華東石油學院) (currently known as China University of Petroleum) with a Bachelor's Degree in Drilling in 1982, and obtained a Doctoral Degree in Oil-and-gas Well Engineering from China University of Petroleum in 2008.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 71, is an Independent Non-executive Director, the chairman of the Remuneration Committee, the chairman of the Nomination Committee and a member of the Audit Committee of the Company. He was appointed as an Independent Non-executive Director on 2 December 2010. Mr. Wang has over 47 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械工業部5214廠) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and the general manager, chairman and senior engineer of professor level of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院, now known as Xidian University) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

Mr. LEE Siang Chin (resigned on 24 March 2017), aged 69, was an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company up to 24 March 2017. He was appointed as an Independent Non-executive Director on 2 December 2010. Mr. Lee has over 40 years of experience in the provision of finance consultancy services for companies in Malaysia, London, Australia and Hong Kong. Mr. Lee serves as an Independent Non-executive Director for Maybank Investment Bank Berhad, Star Publications (Malaysia) Berhad (a company listed on the Malaysian Stock Exchange) and Value Partners Group Limited (a company listed on The Stock Exchange of Hong Kong Limited). Mr. Lee has been appointed as an independent director and a member of the audit committee of Maybank Kim Eng Securities (Thailand) Public Company Limited (a company listed on the Stock Exchange of Thailand) with effect from 1 August 2016. Mr. Lee served as the chairman and managing director of Surf88.Com Sdn. Bhd. from 1999 to 2004, the managing director of AmSecurities Sdn. Bhd. from 1986 to 1999, and an independent non-executive director of Tune Insurance Malaysia Berhad from July 2013 to April 2016. He also worked in the corporate finance department of leading investment banks in London, Sydney and Kuala Lumpur. He assumed multiple official positions. He served as a board member of the Kuala Lumpur Stock Exchange from 1987 to 1988, the president of the Association of Stock Broking Companies in Malaysia from 1997 to 1999, and a director of the Social Security Organisation of Malaysia and a member of its investment panel from 2007 to 2015. Mr. Lee is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Certified Public Accountants.

Mr. LIU Haisheng (劉海勝), aged 71, is an Independent Non-executive Director and a member of the Nomination Committee of the Company. He was appointed as an Independent Non-executive Director on 21 December 2012. Mr. Liu is a senior economist of professor level and an expert entitled to the special allowance of the State Council. He is a party member of the Communist Party of China. Mr. Liu served as the office director of the Second Machinery Factory of China National Petroleum Corporation ("CNPC") Changqing Oil Field, the director of workshop, deputy factory director and factory director of the First Machinery Factory of Huabei Oil Field, the deputy director and director of Huabei Petroleum Administration Bureau, and the director of Planning Department and assistant to general manager of CNPC Group. He was a deputy to the 8th People's Congress of Hebei Province and a deputy to the 9th National People's Congress. Mr. Liu has over 47 years of experience in the petroleum industry and is experienced in machinery manufacturing, exploration and exploitation of oil fields, as well as manufacturing and operation management of petrochemical enterprises. He has a high level of knowledge of macro economy. Mr. Liu graduated from Beijing Institute of Petroleum in 1970.

Mr. WONG Man Chung Francis (黃文宗), aged 53, is an Independent Non-executive Director and the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He was appointed as an Independent Non-executive Director on 24 March 2017. He is currently an independent non-executive director of a number of companies listed on The Stock Exchange of Hong Kong Limited including China Oriental Group Company Limited (stock code: 581), Wai Kee Holdings Limited (stock code: 610), Integrated Waste Solutions Group Holdings Limited (stock code: 923), Greenheart Group Limited (stock code: 94), Digital China Holdings Limited (stock code: 861), GCL-Poly Energy Holdings Limited (stock code: 3800), Kunming Dianchi Water Treatment Co., Ltd. (stock code: 3768) and China New Higher Education Group Limited (stock code: 2001). He holds a Master's Degree in Management from Guangzhou Jinan University (廣州暨南大學) in the People's Republic of China. Mr. Wong is a fellow member of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants, a Certified Tax Advisor of the Taxation Institute of Hong Kong and a member of the Society of Chinese Accountants and Auditors. He is a senior Certified Public Accountant (Practising) and has over 29 years of experience in auditing, taxation, management and financial advisory matters. Mr. Wong worked at KPMG, an international accounting firm, for over six years and Hong Kong Securities Clearing Company Limited for one year and ten months.

Mr. SHI Zheyan (施哲彥), aged 61, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive Director of the Company on 25 August 2017. Mr. Shi has close to 40 years of work experience in the petroleum industry. From April 2014 to July 2016, he was the deputy chief economist and the head of the security department of China National Petroleum Corporation ("CNPC"). He served as the head of the security department in April 2007. From December 2000 to April 2007, he was the deputy director of the general office of CNPC. From July 1995 to December 2000, he served as the deputy general manager of China Petroleum Engineering & Construction Corporation. From March 1992 to July 1995, he was the secretary (director level) at the general office secretariat of CNPC. From October 1985 to March 1992, he worked at the CNPC Managers Training Institute of the Ministry of Petroleum Industry (石油工業部北京石油管理幹部學院), first as the deputy director of the general office of CPC Party Committee, and later as the director of the institute head's office and the head of the human resources department. From October 1979 to October 1985, he served as the officer and deputy head of the Department of Transport under East China Oil Transport Administration Bureau (華東輸油管理局運輸處). Starting his work at Liaohe Oil Field (遼河油田) in January 1975, he served as the confidential secretary of the CPC Party Committee's general office for the transportation division of Liaohe Oil Field from May 1978 to October 1979. Mr. Shi is a senior engineer. He holds a Bachelor's Degree in Business Administration from Southwest Petroleum University (西南石油學院).

SENIOR MANAGEMENT

For the biographies of Mr. ZHANG Jun and Mr. WANG Tao, please refer to "– Board of Directors – Executive Directors". For the biography of Ms. ZHANG Shuman, please refer to "– Board of Directors – Non-executive Directors". Other members of the senior management team of the Company consist of the following:

Mr. DAI Daliang (代大良), aged 51, has been a director of Hilong Oil Service and Engineering Nigeria Limited since 2010, a director and the general manager of Hilong Oil Service and Engineering Co., Ltd. since 2008, and the executive president of the Company since December 2017. Mr. Dai has over 28 years of experience in the petroleum industry. Prior to joining the Group, from 1989 to 1995, Mr. Dai worked as an engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司), responsible for the drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司), responsible for international drilling cooperation. From 1996 to 2001, he worked for Greatwall Drilling Company Limited (中油長城鑽井有限公司) as its co-manager of the marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by Greatwall Drilling Company Limited. From 2001 to 2008, he served as the deputy general manager of Greatwall Drilling Company Limited. In 2008, he worked as an assistant to the general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's Degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's Degree in Engineering from Central South University of Technology in 1990 and a Doctorate Degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. CHEN Su (陳甦), aged 59, has been a director of Hilong Oil Service & Engineering Co., Ltd. since 2008. Mr. Chen has over 35 years of experience in the petroleum industry. From 1982 to 2005, he worked in the department of steel pipe manufacturing of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司) and served as its branch factory manager, acting general manager and general manager. In 2005, he also served as the acting general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). Mr. Chen received a Bachelor's Degree in Engineering from Shanghai University of Technology (上海工業大學) in 1982. Mr. Chen will retire in 2018.

Mr. CHEN Yong (陳勇), aged 44, is the chief financial officer of the Company. After joining the Group in August 2008, Mr. Chen served in various positions in Hilong Group of Companies Ltd., including finance controller, audit supervisor, assistant to the president and internal control director. He was appointed as the chief financial officer of the Company in 2016. As the chief financial officer, Mr. Chen is responsible for overall financial and corporate finance management. Mr. Chen received a Master's Degree in Economics from Shanghai University of Finance and Economics (上海財經大學). He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom (FCCA), and has obtained the Legal Professional Qualification Certificate (法律職業資格證書) of the PRC.

Mr. XU Changxue (徐昌學), aged 53, has served as the chief engineer of Hilong Group of Companies Ltd. since April 2017, while acting as the head of Hilong Tubular Goods Research Institute. Mr. Xu is also the president of Shanghai Baoshan Federation of Science and Technology Enterprises (上海市寶山區科技企業聯合會). He has over three decades of experience in the petroleum industry. Prior to joining the Group, Mr. Xu worked for China Research Institute for Petroleum and Natural Gas Pipelines (中國石油天然氣管道科學研究院), as project director and branch director from 1987 to 1999. Subsequently, he served as a member of the senior management at various agencies before returning to China Research Institute for Petroleum and Natural Gas Pipelines as its head in 2010. Mr. Xu graduated from Southwest Petroleum University (西南石油學院) in 1987, majoring in applied chemistry. He obtained his Doctoral Degree from the same university in 2002, majoring in petroleum and natural gas engineering.

Mr. WANG Xianglei (王相磊), aged 48, joined the Group in August 2008. He is the vice president of Hilong Group of Companies Ltd. and the general manager of Hilong Oil Service and Engineering Co., Ltd. Mr. Wang has over 27 years of experience in the petroleum industry. He graduated from Southwest Petroleum University (西南石油學院) in 1990, majoring in drilling engineering. In 2007, he obtained a Master's Degree in Engineering from China University of Petroleum, Beijing, majoring in oil and gas field development. Prior to joining the Group, Mr. Wang worked for No.2 Drilling Company of Zhongyuan Petroleum Exploration Bureau and Greatwall Drilling Engineering Company Limited successively, from 1990 to 2008. In addition, Mr. Wang published five articles in core domestic publications, such as "Oil Drilling & Production Technology" (《石油鑽采工藝》), and served as an editor for such publications. He compiled "A Practicable Book on English for Overseas Oil Drilling" (《海外石油鑽井英語實務》), a book published by China Commerce and Trade Press.

Mr. CAO Yuhong (曹育紅), aged 48, has been the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 27 years of experience in the petroleum industry. Prior to joining the Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) and served as its deputy manager of the coating branch in 1996. Mr. Cao received a Bachelor's Degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學), in 1991.

Mr. GAO Zhihai (高智海), aged 48, has been the chairman and general manager of Shanghai Boteng Welding Consumable Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 23 years of experience in the petroleum industry. Prior to joining the Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received a Bachelor's Degree in Engineering from Southwest Petroleum University in 1992 and a Master's Degree in Engineering in 1995. Mr. Gao became an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. XUE Zhijun (薛志軍), aged 54, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司). Mr. Xue has over 14 years of experience in the petroleum industry. Prior to joining the Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as the deputy manager of First Machinery Factory of CNPC Bohai Petroleum Equipment Manufacturing Company Limited (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded the "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction" (國家西氣東輸工程建設先進個人) by the National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and the "Outstanding Entrepreneur in Hebei Province" (河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

Mr. XIAO Long (肖龍), aged 56, has been the general manager of Hilong Marine Engineering (Hong Kong) Limited since January 2014. Mr. Xiao has over 33 years of experience in the petroleum industry. Prior to joining the Group, from 1985 to 2012, Mr. Xiao worked at China National Offshore Oil Corporation (中國海洋石油總公司) and its subsidiaries (collectively "CNOOC") in the fields of construction project management and production management for offshore oil and gas field development projects. He also obtained certificates of senior engineer and general manager for ultra-large-scale projects issued by CNOOC. During his employment with CNOOC, Mr. Xiao served various positions including engineering supervisor, platform department manager, deputy principal project manager and principal project manager, and successfully undertook the construction project management of a number of large-scale offshore projects for CNOOC. From 2012 to 2013, he served as the vice president of Rongsheng Offshore & Marine Pte. Ltd., Singapore (熔盛海事有限公司) and the general manager of Jiangsu Rongsheng Offshore Engineering Co., Ltd. (江蘇熔盛海洋工程有限公司), and was mainly engaged in project management for construction of offshore vessels and equipment. Mr. Xiao graduated from Guangdong Mechanics Institute (廣東機械學院), now known as Guangdong University of Technology (廣東工業大學), with a Bachelor's Degree in Engineering in 1985.

Mr. XU Jianmin (許建民), aged 54, has been the general manager of Hilong Energy Technology Co., Ltd. (海隆能源技術有限公司) since February 2017, and the vice president of Hilong Group of Companies Ltd since January 2018. Mr. Xu has over 36 years of experience in the petroleum industry. He graduated from Southwest Petroleum University (西南石油大學) in 2007, with a Master's Degree in Engineering. Prior to joining the Group, Mr. Xu worked at Huabei Oil Field of China National Petroleum Corporation ("CNPC") from 1981 to 1999, and acted as the general manager for African business of CNPC, the manager for Sudanese business and deputy chief engineer from 1999 to 2017.

The Board of Directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2017.

The Company has adopted the Corporate Governance Code (the "CG Code") as contained in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance. The Company has applied the principles set out in the CG Code during the year under review. The manner in which the principles and code provisions in the CG Code are applied and implemented during the year ended 31 December 2017 (the "year") is explained in this Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company acknowledges the important role of its Board in providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations.

In the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code throughout the year except for the deviations from code provisions A.2.1 an E.1.2 which are explained in the relevant paragraphs of this Corporate Governance Report.

The Board will, from time to time, review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions of Directors.

Specific enquiry has been made to all the Directors and the all Directors confirmed that they have complied with the Model Code throughout the year.

The Company has also established written guidelines (the "Employees Written Guidelines") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board currently comprises ten Directors, consisting of two Executive Directors, four Non-executive Directors and four Independent Non-executive Directors.

The Board of the Company currently comprises the following Directors:

	Ethnicity (Nationality)	Age	Length of Service (Since)
Executive Directors:			
Mr. Zhang Jun *(Chairman and Executive Chairman)*[(1)]	Chinese	50	2001
Mr. Wang Tao (汪濤) *(Chief Executive Officer)*[(2)]	Chinese	54	2006
Non-executive Directors:			
Ms. Zhang Shuman	Chinese	44	2008
Mr. Yuan Pengbin	Chinese	59	2005
Mr. Li Huaiqi	Chinese	68	2011
Mr. Yang Qingli	Chinese	61	2015
Independent Non-executive Directors:			
Mr. Wang Tao (王濤)	Chinese	71	2010
Mr. Lee Siang Chin[(3)]	Malaysian	69	2010
Mr. Liu Haisheng	Chinese	71	2012
Mr. Wong Man Chung Francis[(4)]	Chinese	53	2017
Mr. Shi Zheyan[(5)]	Chinese	61	2017

(1) Mr. Zhang Jun has been re-designated from Chief Executive Officer to Executive Chairman with effect from 15 December 2017.

(2) Mr. Wang Tao (汪濤) was appointed as the Chief Executive Officer and ceased to act as the Executive President with effect from 15 December 2017.

(3) Mr. Lee Siang Chin resigned as an Independent Non-executive Director with effect from 24 March 2017.

(4) Mr. Wong Man Chung Francis was appointed as an Independent Non-executive Director with effect from 24 March 2017.

(5) Mr. Shi Zheyan was appointed as an Independent Non-executive Director with effect from 25 August 2017.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Mr. Zhang Jun is the elder brother of Ms. Zhang Shuman.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The roles of Chairman and Chief Executive Officer of the Company were not separate and were both performed by Mr. Zhang Jun during the period from 1 January 2017 to the date of re-designation of Chief Executive Officer on 15 December 2017. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company. However, Mr. Zhang Jun has been re-designated from the Chief Executive Officer of the Company to the Executive Chairman of the Company and Mr. Wang Tao (汪濤), an Executive Director of the Company, has been appointed as the Chief Executive Officer of the Company with effect from 15 December 2017. Accordingly, the roles of Chairman and Chief Executive Officer of the Company are separate with effect from 15 December 2017.

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

Throughout the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent Non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Terms of Directors

Each of the Directors (including Executive and Non-executive Directors) of the Company is engaged on a service contract (in the case of Executive Director) or on a letter of appointment (in the case of Non-executive Director and Independent Non-executive Director) for a term of three years, and is subject to retirement by rotation and re-election at least once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the leadership and control of the Company, oversees the businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising the affairs of the Company and its members companies (the "Group"). Directors of the Board make decisions objectively in the interests of the Company.

The Board reserves for its decision on all major matters of the Company including the approval and monitoring of all policy matters, overall strategies and budgets, internal control system and risk management system, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have full and timely access to all relevant information as well as the advice and services from the Joint Company Secretaries, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

All Directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

Continuing Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Each newly appointed Director will receive comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Comprehensive and tailored induction was provided to each of Mr. Wong Man Chung Francis and Mr. Shi Zheyan, the newly appointed Independent Non-executive Directors, during the year.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors and trainings conducted/hosted by external advisers will be arranged. Also, reading materials on relevant topics will be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year, relevant reading materials relating to Environmental, Social and Governance Reporting were provided to Directors, namely Mr. Zhang Jun, Mr. Wang Tao (汪濤), Ms. Zhang Shuman, Mr. Yuan Pengbin, Mr. Li Huaiqi, Mr. Yang Qingli, Mr. Wang Tao (王濤), Mr. Lee Siang Chin (resigned on 24 March 2017), Mr. Liu Haisheng, Mr. Wong Man Chung Francis and Mr. Shi Zheyan for their reference and studying. In addition, training course on regulatory updates on topics relating to ESG reporting, SFC guidance on directors' duties in the context of valuations in corporate transactions and consultation paper on corporate governance was conducted by the Company's external legal advisor during the year to the Directors.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on pages 4 to 5 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, overseeing the Company's financial reporting system, risk management system and internal control system, reviewing and monitoring effectiveness of internal audit function, making recommendation to the Board on the re-appointment, remuneration and terms of engagement of external auditor and monitoring the independence of external auditor, and reviewing arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, risk management and internal control or other matters of the Company.

During the year, the Audit Committee held three meetings to review annual financial results and report in respect of the year ended 31 December 2016, interim financial results and report in respect of the six months ended 30 June 2017, the unaudited consolidated financial statements for the nine months ended 30 September 2017, and significant issues on financial reporting and compliance procedures, risk management system and internal control system, relationship with auditors including the remuneration, terms of engagement, independence and re-appointment of auditors, non-exempt continuing connected transactions, arrangements for employees to raise concerns about possible improprieties, and to evaluate and assess the effectiveness of the Audit Committee and the adequacy of the terms of reference of the Audit Committee and consider whether any update or amendment is required.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of the Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year, the Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the Directors and senior management, the remuneration package of the newly appointed Independent Non-executive Directors, increase in annual director's fee for the Non-executive Directors and Independent Non-executive Directors and other related matters, and to evaluate and assess the effectiveness of the Remuneration Committee and the adequacy of the terms of reference of the Remuneration Committee and consider whether any update or amendment is required.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the board diversity policy, as appropriate, reviewing the measurable objectives that the Board has set for implementing the board diversity policy, and monitoring the progress on achieving the objectives, and assessing the independence of Independent Non-executive Directors; reviewing and assessing the adequacy of the corporate governance guidelines of the Company and making recommendations to the Board for any proposed changes.

The Board has adopted the "Board Diversity Policy" with a view to achieving sustainable and balanced development in the Board. Selection of board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional and industry experience, skills, knowledge and length of service with the Group. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In assessing the Board composition and identifying and selecting suitable candidates for directorships, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy to implement the corporate strategy of the Company. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

During the year, the Nomination Committee met twice to review the structure, size, composition and diversity of the Board, the "Board Diversity Policy" and consider whether any update or amendment is required, the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the Annual General Meeting, and to evaluate and assess the effectiveness of the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required. Also, the Nomination Committee submitted the resignation of Mr. Lee Siang Chin as an Independent Non-executive Director in March 2017 and also the proposal for the appointment of Mr. Wong Man Chung Francis and Mr. Shi Zheyan as the Independent Non-executive Directors to the Board for review and approval in March and August 2017 respectively.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board met twice to review the Company's corporate governance policies and practices, contribution required from directors for performing their responsibilities, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The attendance records of each director at the meetings of the Board, Audit Committee, Remuneration Committee and Nomination Committee as well as the general meeting during the year are set out below:

	Attendance/Number of Meetings during the tenure of directorship				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Mr. Zhang Jun	5/5	N/A	N/A	N/A	0/1
Mr. Wang Tao (汪濤)	5/5	N/A	N/A	2/2	0/1
Ms. Zhang Shuman	4/5	3/3	N/A	N/A	0/1
Mr. Yuan Pengbin	5/5	N/A	2/2	N/A	1/1
Mr. Li Huaiqi	4/5	N/A	N/A	N/A	0/1
Mr. Yang Qingli	5/5	N/A	N/A	N/A	1/1
Mr. Wang Tao (王濤)	5/5	3/3	2/2	2/2	1/1
Mr. Lee Siang Chin(1)	1/1	1/1	1/1	N/A	N/A
Mr. Liu Haisheng	5/5	N/A	N/A	2/2	1/1
Mr. Wong Man Chung Francis(2)	4/4	2/2	1/1	N/A	1/1
Mr. Shi Zheyan(3)	3/3	N/A	N/A	N/A	N/A

(1) Resigned with effect from 24 March 2017

(2) Appointed with effect from 24 March 2017

(3) Appointed with effect from 25 August 2017

Apart from regular Board meetings, the Chairman also held a meeting with Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

DIRECTORS' RESPONSIBILITIES FOR PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 64 to 68 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2017, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	3,500
Non-audit Services	
– Tax Services	452
– Other non-audit Services	849
Total	4,801

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the risk management system and internal control system and reviewing their effectiveness on an ongoing basis. Such risk management system and internal control system are designed for managing instead of eliminating the risks of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee that set up by the Board is responsible for oversee and review the risk management system and internal control system of the Group, and monitor the design, implementation and monitoring functions on the risk management system and internal control system. Through the reporting and recommendation given by the internal audit team, the Audit Committee is responsible to review and comment the effectiveness of the risk management system and internal control system.

Management has reported and confirmed to the Audit Committee and the Board that the relevant systems have been effective for the year ended 31 December 2017 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management system and internal control system are effective.

The Company established the risk management system and internal control system according to the following principles, main features are shown as below:

(1) **Alignment to the Company's strategy:** The enterprise risk management is aligned to the Company's strategic targets;

(2) **Compliance:** The Company complies with relevant laws and regulations including the Listing Rules and relevant management systems;

(3) **Comprehensiveness:** Enterprise risk management involves all employees of the Company, and plays important roles in decision-making, management and execution in all areas of businesses;

(4) **Materiality:** The Company focuses on risk management of key businesses and high risk areas;

(5) **Cost effectiveness:** The Company optimizes existing resources, and implements effective risk control procedures at a reasonable cost to enhance the efficiency and effectiveness of risk management system and internal control system.

The processes used to identify, evaluate and manage significant risks by the Group are summarized as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritizes the risks by comparing the results of the risk assessment;

- Determines the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks; and

- Strengthens the monitoring and warning function of the system continuously based on the result of risk assessment.

Risk Monitoring and Reporting

- Establishes hierarchical supervisory responsibilities in the Group to ensure that risk monitoring is objective and effective;

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;

- Revises the risk management strategies and internal control procedures in case of any significant change of situation; and

- Reports the results of risk monitoring to the management and the Board regularly.

Internal Audit Function

The Group has established an internal audit team, which assesses the adequacy and effectiveness of the risk management system and internal control system of the Group regularly, and reports to the Audit Committee and the Board on the audit results semi-annually and makes recommendations to the Board and the management to address the significant deficiencies of the system or problems that identified during the monitoring process.

Company Inside Information Management

Important inside message delivered through Company's mailbox and important electronic files were encrypted by password. In addition, the Company has set up "whistle-blowing" window to enhance control of inside information leakage.

COMPANY SECRETARY

Ms. Cheng Pik Yuk of Tricor Services Limited, an external service provider and Ms. Zhang Shuman, a Non-executive Director, have been engaged by the Company as its joint company secretaries until 24 March 2017. With effect from 24 March 2017, Ms. Zhang Shuman resigned as a joint company secretary and Ms. Cheng Pik Yuk has become the sole company secretary of the Company. The primary contact person at the Company are Ms. Zhang Shuman (Non-executive Director) and Mr. Li Jia (Board Secretary). During the year, our sole company secretary has undertaken over 15 hours of professional training to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution would be proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the Company's Articles of Association and results of the poll will be posted on the websites of Hong Kong Exchanges and Clearing Limited and the Company after each general meeting.

Pursuant to the Articles of Association, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The purpose of the meeting must be stated in the written requisition.

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

As regards proposing a person for election as a Director of the Company, please refer to the procedures posted on the Company's website.

Shareholders may send written enquiries or requests to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	Suite 3206, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (For the attention of Mr. Jason Li, Board Secretary)
Fax:	+852 2506 0109
Email:	jasonli@hilonggroup.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner. At the Annual General Meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer questions at their enquires.

Mr. Zhang Jun, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 23 June 2017 due to unexpected flight cancellation resulting from bad weather conditions.

During the year, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is available on the websites of the Company and Hong Kong Exchanges and Clearing Limited. Shareholders may refer to the Articles of Association for further details of their rights.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Group is an integrated oil field equipment and services provider with a focus on oilfield services, line pipe technology and services, oilfield equipment manufacturing and services and offshore engineering services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements of this annual report.

BUSINESS REVIEW

Overview and performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial key performance indicators is provided in the Management Discussion and Analysis section on pages 6 to 21 of this annual report. Such section constitutes part of this directors' report.

Environmental Policies and Performance

Our production processes primarily involve the manufacture and assembly of components and we do not operate in a highly-polluted industry. Our operations in the PRC are subject to a number of environmental laws and regulations including the Environmental Protection Law, Air Pollution Prevention Law, Water Pollution Prevention Law and its Implementing Regulations, Rules on the Administration concerning Environmental Protection of Construction Projects, Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects, etc. Pursuant to such laws and regulations, the discharge and disposal of contaminants, toxic and hazardous materials, including manufacturer's waste water, solid waste and waste gases, must comply with the applicable national and local standards. For the year ended 31 December 2017, the Group has been committed to complying with such applicable standards and the aforesaid environmental protection laws and regulations. Further, the Group did not incur any material cost in complying with such laws and regulations during the reporting period.

The Company places environmental protection as one of its top priorities. The Group has developed its own HSE management system with an objective that its operations do not cause any damage to the environment. The HSE policy has been strictly followed. In addition, several of the Group's subsidiaries have obtained certifications from Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) and ABS Quality Evaluations Inc. that their environmental management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of the ISO 14001 standards.

When providing services to our clients, Hilong not only complies with the applicable local environmental laws and regulations of places it operates, but also spares every effort to assist clients to reduce waste and waste treatment costs through optimizing its operation procedures and adopting new technologies even it is clients' responsibility to take charge of the waste produced (such as cuttings, waste mud, greenhouse gases emission) from their operation activities. Since its foundation in 2008, Hilong and its overseas subsidiaries have never received any complaints or fines from clients or local governments.

Our operations involve welding, handling of heavy machinery and components and hazardous chemicals. As a result, our employees may face the risk of various work-related injuries and accidents. We are subject to relevant rules and regulations on occupational health and safety such as the Safe Production Law, Law of the PRC on the Prevention and Treatment of Occupational Diseases, and Regulations on the Reporting, Investigation and Handling of Work Safety Accidents. We have established HSE and safety production policies and management system to ensure that all parts of our operations are in compliance with existing laws and regulations on occupational, safety and health. In addition, several subsidiaries of the Group have obtained certifications from American Bureau of Shipping (ABS) and Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) that their health and safety management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of certain international standards in relation to occupational, health and safety system such as the OHSAS 18001. Also, Hilong's safety management system of the pipe-laying and derrick vessel, Hilong 106, has been certified by ABS that it has complied with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention. For the year ended 31 December 2017, there had been no instance of major work related injuries or casualties which could have a material and adverse impact upon our business and operations.

The Group also implemented several measures in order to mitigate emissions produced by the Group's offices, such as reducing energy consumption by switching off lightings and electrical appliances and using of LED lamps, implementing double-sided printing and copying, setting up recycling bins, promoting the use of recycled paper.

Compliance with relevant Laws and Regulations

For the year ended 31 December 2017, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impact on the Group.

On environmental matters, occupational health and safety, the Group is subject to various laws and regulations in relation to environmental protection and workplace safety. As mentioned in the section headed "Environmental Policies and Performance" above, for the year ended 31 December 2017, the Group has been committed in complying with the applicable standards on discharge and disposal of contaminants, toxic and hazardous materials and the applicable environmental protection laws and regulations. Regarding production safety, the Group has policies and measures in place to prevent and eliminate occupational damages and ensure safe production environment including (i) designating staff to be responsible for managing production safety; (ii) providing relevant employees of appropriate safety classes and training to ensure they possess the required knowledge and management skills on production safety; (iii) erecting appropriate safety signage on dangerous equipment and installations; (iv) ensuring safety-related equipment comply with national or industry standards; and (v) formulating emergency response plan for occupational diseases and accidents.

Our business involves production of hazardous chemicals and production, usage, and inspection of special equipments such as pressure pipelines. We are required by the relevant laws and regulations such as Regulations on the Administration of Permits for the Production of Industrial Products and Regulation to obtain production permits from designated authorities before manufacturing such products and equipments. For the year ended 31 December 2017, the Group obtained necessary production permits from the relevant authorities before commencing the production of hazardous chemical and special equipments.

On employees' rights and interests, the Group has been committed in complying with the requirements of the Labour Law of the People's Republic of China and Law of People's Republic of China on Employment Contracts and other relevant overseas laws and regulations in relation to employees' rights in order to safeguard all employees' rights and interests. All full-time employees in the PRC are covered by a state-managed retirement benefit plan operation by the government of the PRC, and are entitled to an annual pension. The Group has made annual contributions to the state-managed retirement benefit as required under the relevant law. The Group has also made contributions to a defined contribution mandatory provident fund for all full-time employees in Hong Kong.

On taxation, the Group is subject to various taxation. Details of such taxes and compliance of the Group with such applicable tax laws are set out in note 28 to the consolidated financial statements of this annual report.

On corporate compliance, the Group has complied with the requirements under the Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Securities and Futures Ordinance (the "SFO") and the Corporate Governance Code (the "CG Code") for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

KEY RELATIONSHIPS WITH STAKEHOLDERS

The Company has always been actively fulfilling its social responsibility. The Group, with high quality products and services, is committed to creating good internal and external corporate relationships, and build a harmonious enterprise to take its responsibilities for customers, employees, shareholders and community.

Relationship with customers – Our customers primarily include a number of major PRC and international oil and gas companies. We have maintained well-established relationships with some of the largest PRC oil and gas companies by the provision of quality products, services and after-sales services. We have also maintained regular communications with these customers in order to understand their concerns, standards and industry trends. So far, our performance is widely recognized by the customers.

Relationship with employees – The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, trainings and guidelines are implemented to ensure that the working environment is healthy and safe. The Group provided regular occupational health and safety check-ups and trainings for its employees. Employees are regarded as the most important and valuable assets of the Group. The management met with the employee representatives regularly to understand the concerns of employees. The objectives of the Group's human resources management are to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate trainings and by providing opportunities within the Group for career advancement.

Relationship with shareholders – The Group recognizes the importance of protecting the interests of shareholders and having effective communications with them. The Group believes that the communication with its shareholders is a two-way process and thrives to ensure the quality and effectiveness of information disclosure, maintain regular dialogues with shareholders and listen carefully to the views and feedback it receives from its shareholders. This can be done through annual general meetings, extraordinary general meetings, corporate communications, interim and annual reports and results announcements.

Relationship with the community – The Group is committed to participating in community events and has worked with a number of charitable organizations with an aim to improve community well-being and social services. The Group believes that by encouraging the staff to participate in a wide range of charitable events, the concern for the community will be raised and boosted.

KEY RISKS AND UNCERTAINTIES

Decline in domestic and international oil and natural gas prices – The economic condition, market uncertainty and various factors that are beyond our control, including actions by major oil-producing countries and the prices and availability of other energy resources, may reduce the worldwide demand for oil and natural gas and result in a decline in the prices for oil and natural gas. Any decline in the prices of oil and natural gas, even for a short period of time, may reduce or curtail the expenditure by oil and gas companies in connection with exploration, drilling and production activities, which may result in lower sales volumes and prices for our drilling-related products and oil field services in the PRC and overseas, and may materially and adversely affect our business, financial condition and results of operations.

Failure to renew our certification as a supplier of our key customers – We are approved by our key customers such as CNPC and Sinopec as their suppliers. Such status is necessary for us to sell our products to the subsidiaries or branch oil fields of our major customers. However, such status may be suspended if the Group, amongst other things, delays delivery, has operational problems, is unable to provide after-sales services, or has unsatisfactory financial results. In the event that such status is suspended or terminated by our key customers, or that we are unable to renew such status, our business, financial condition and results of operations may be adversely affected.

Delay or rescheduling of oil and gas pipeline projects – We derive a significant portion of our revenue from sales of drill pipes, coating materials and related services. Planned and ongoing oil and gas pipeline projects can be delayed or rescheduled for a number of reasons including changes in business strategy of pipeline operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. Should any of the major projects of our clients to which we plan to supply our products and services be delayed or rescheduled, our business, financial condition and results of operations could be materially affected.

Failure to develop or adopt new production technologies – The oil and gas industry is competitive and the production technology underlying the industry is rapidly evolving. As customers' needs, related technologies and market trends are subject to change, the Group may not be able to correctly predict the trends in a timely manner or develop or adopt competitive technology on a timely basis, whether developed in-house or obtained through licence. Even if the Group has put in substantial investment of resources, time and capital to respond to and adapt to technological developments and changes in the oil and gas industry, there can be no assurance that the Group will succeed in adequately responding and adapting to such technological and industry developments. In the event that the Group is unable to respond successfully to technological and industry developments, its business, results of operations and competitiveness may be affected.

Certain risks inherent in overseas operations and risks associated with the international expansion of the Group's business – During the reporting period, a large portion of our revenue was derived from our oilfield services segment from the non-PRC markets. In addition, the Group generated a significant portion of drill pipes and related products revenue from sales to non-PRC markets. Further, as part of the business strategy, the Group intends to expand its business into other regions of the world. As a result, the Group may face certain risks inherent in its overseas operations and risks associated with its efforts to expand and maintain its business in international markets, including cultural differences and other difficulties in staffing and managing international operations; volatility in currency exchange rates; risks that foreign countries may impose withholding taxes; risks of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade; etc. If any of these risks materializes, or if the Group is unable to manage these risks effectively, the Group's ability to maintain or expand international business would be impaired, which may in turn affect the Group's business, financial condition, results of operations and prospects.

Prospects

The prospects of the Group is provided in the Chairman's Statement on pages 2 to 3 and in the Management Discussion and Analysis section on pages 6 to 21 of this annual report.

DIVIDEND

During the year ended 31 December 2017, a final dividend of HK1.0 cent per share, amounting to a total dividend of approximately HK$17.0 million (equivalent to approximately RMB14.6 million) for the year ended 31 December 2016, was paid to the shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK1.0 cent per share, amounting to approximately HK$17.0 million (equivalent to approximately RMB14.2 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2017, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company ("AGM"). Upon approval of the shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on Wednesday, 11 July 2018 to the shareholders of the Company whose names appear on the register of members of the Company as at Thursday, 28 June 2018.

RESERVES

Details of movement in the reserves of the Company and the Group for the year ended 31 December 2017 are set out in notes 36 and 19 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2017, the reserves of the Company available for distribution to shareholders amounted to RMB1,191.5 million (2016: RMB1,193.6 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate revenue from sales of goods or rendering of services attributable to the Group's largest customer and five largest customers were 7.3% and 29.3% of the Group's total revenue from sales of goods or rendering of services respectively (2016: 6.5% and 26.0%). The aggregate purchases attributable to the Group's largest supplier and five largest suppliers were 4.8% and 16.1% of the Group's total purchases respectively during the year under review (2016: 4.0% and 13.5%).

During the year, to the best knowledge of the Directors, none of the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the issued shares of the Company) had any interest in any of the five largest customers or suppliers of the Group.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2017 are set out in note 20 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

ISSUED SHARES

Details of and reasons for movements in the total issued shares of the Company during the year under review are set out in note 18 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 150 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association (the "Articles") or the laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DIRECTORS

The Directors during the year and up to the date of this report are as follows:

Executive Directors

Mr. Zhang Jun (張軍)
Mr. Wang Tao (汪濤)

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. Lee Siang Chin (1)
Mr. Liu Haisheng (劉海勝)
Mr. Wong Man Chung Francis (2)
Mr. Shi Zheyan (3)

(1) Mr. Lee Siang Chin resigned as an Independent Non-executive Director with effect from 24 March 2017.
(2) Mr. Wong Man Chung Francis was appointed as an Independent Non-executive Director with effect from 24 March 2017.
(3) Mr. Shi Zheyan was appointed as an Independent Non-executive Director with effect from 25 August 2017.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent.

Mr. Zhang Jun, Mr. Wang Tao (汪濤) and Mr. Wang Tao (王濤) will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with Article 84 of the Articles and pursuant to Appendix 14 of the Listing Rules, whereas Mr. Shi Zheyan will retire as Director at the forthcoming AGM of the Company pursuant to Article 83(3) of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company under which he agreed to act as an Executive Director for a term of three years, which may be terminated by not less than one month's notice in writing served by either the Executive Director or the Company. Each of the Non-executive Directors and the Independent Non-executive Directors has signed an appointment letter with the Company for a term of three years which may be terminated by one month's notice (in the case of Non-executive Director) or not less than one month's notice (in the case of Independent Non-executive Director) served by either the Non-executive Director/Independent Non-executive Director or the Company. The appointments of Directors are subject to the provisions of retirement by rotation of Directors under the Articles.

None of the Directors (including those proposed for re-election at the forthcoming AGM) has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merits, qualifications and competence.

The Remuneration Committee considers and recommends to the Board on the remuneration and other benefits paid by the Company to the Directors by reference to the Company's operating results, individual performance and comparable market rates. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate.

As at 31 December 2017, the total number of full-time employees of the Group was 2,914 (31 December 2016: 2,608). Employee costs excluding the Directors' remuneration totalled RMB485,123,000 for the year of 2017. The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

The Company 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 Post-IPO 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 annual report, none of the share options granted under the Post-IPO share option scheme was exercised.

Details of Directors' remuneration are set out in note 25 to the consolidated financial statements.

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2017 were within the following bands:

	Number of Senior Management
HK$1,000,001 to HK$1,500,000	7
HK$1,500,001 to HK$2,000,000	3
	10

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, as at 31 December 2017 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance in relation to the Group's business was entered into between the Company, or any one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2017.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles, the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2017 which is still in force.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as the Pre-IPO share option scheme and the Post-IPO share option scheme, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements that would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements subsisting at the end of the year are set out below. Other than the below share option schemes, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2017.

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a Pre-IPO share option scheme (the "Pre-IPO Scheme") on 28 February 2011. According to the terms of the Pre-IPO Scheme, the option period of the Pre-IPO Scheme is 30 days after the adoption date (both days inclusive), so the option period of the scheme expired on 30 March 2011. The Pre-IPO Scheme commenced on 1 January 2011. The following is a summary of the principal terms of the Pre-IPO Scheme:

(a) Purpose

The Pre-IPO Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) have or may have made to the Company. The Pre-IPO Scheme will provide the Eligible Participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Company; and

(ii) attract and retain or otherwise maintain relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Company.

(b) Who may join

The eligible participants (collectively the "Eligible Participants") under the Pre-IPO Scheme include the following:

(i) the full-time employees, executives or officers (including Executive, Non-executive and Independent Non-executive Directors) of the Company;

(ii) the full-time employees of any of the subsidiaries of the level of manager or above;

(iii) technical experts that have contributed or will contribute to the Company and/or any of its subsidiaries; and

(iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Company and/or any of the subsidiaries.

Upon acceptance of the option, the grantee shall pay RMB1.00 to the Company by way of consideration for the grant.

(c) Maximum number of Shares

The total number of shares subject to the Pre-IPO Scheme is 46,322,000 shares, representing approximately 2.73% of the issued share capital of the Company as at the date of this annual report. During the year of 2011, all the options under the Pre-IPO Scheme that would entitle the holders to subscribe for an aggregate of 46,322,000 shares have been granted. Certain Eligible Participants have been granted options that entitle each of them to subscribe for 2,150,000 shares, representing approximately 0.13% of the issued share capital of the Company as at the date of this annual report, being the highest entitlement for each participant under the Pre-IPO Scheme.

(d) Subscription price

The subscription price of a share in respect of any particular option granted under the Pre-IPO Scheme shall be a price equivalent to the offer price of the Company's shares under the Global Offering, being HK$2.60.

(e) Time of exercise of option and duration of the Pre-IPO Scheme

The grantees to whom options 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 "Stock Exchange") ("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. Therefore, as at 31 December 2017, the remaining life of the Pre-IPO Scheme was approximately three years and three months.

(f) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the expiry of the respective stated exercise period in the Pre-IPO Scheme;

(ii) the date of expiry of the option as may be determined by the Board;

(iii) the date of commencement of the winding-up of the Company in accordance with the Companies Law of the Cayman Islands;

(iv) the date on which the grantee ceases to be an Eligible Participant for any reason as specified in the scheme document including death, resignation, dismissal, material misconduct or criminal offences in respect of dishonesty. A resolution of the Board or the relevant board of the relevant subsidiary to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in the scheme document shall be conclusive; or

(v) the date on which the Board shall exercise the Company's right to cancel the option in the case that the Pre-IPO Scheme is terminated by resolution in general meeting or by the Board.

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

Category/ name of grantees	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2017	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
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	23,674,300	–	–	–	24,064,300*	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Total	29,174,300	–	–	–	29,564,300*				

* The Company has changed the status of 390,000 expired units to exercisable units by a board resolution dated 11 January 2017.

POST-IPO SHARE OPTION SCHEME

The Company adopted a Post-IPO share option scheme (the "Post-IPO Scheme") on 10 May 2013. The remaining life of the Post-IPO Scheme is approximately five years and four months as at 31 December 2017. The following is a summary of the principal terms of the Post-IPO Scheme:

(a) Purpose

The purpose of the Post-IPO Scheme is to provide incentive or reward to certain directors and employees of the Group for their contribution to the Group.

(b) Who may join

Any Director (whether executive or non-executive, including any Independent Non-executive Director) or employee (whether full-time or part-time) of the Group (the "Eligible Persons") is eligible to participate in the Post-IPO Scheme. Payment of option price of HK$1.00 shall be made upon acceptance of the offer of options.

(c) Maximum number of shares

The aggregate number of shares which may be issued upon exercise of all options to be granted under the Post-IPO Scheme as well as any new share option scheme of the Company which may be adopted must not, in aggregate, exceed 5% of the total number of shares in issue as at the date of adoption of the Post-IPO Scheme or any new share option scheme (as the case may be). The maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of shares in issue from time to time.

The total number of shares subject to the Post-IPO Scheme is 81,573,950 shares, representing approximately 4.81% of the issued share capital of the Company as at the date of this annual report.

(d) Maximum entitlement of each participant under the Post-IPO Scheme

No share option shall be granted to any Eligible Person if, at the relevant time of grant, the number of shares of the Company issued and to be issued upon exercise of all options (granted, proposed to be granted, whether exercised, cancelled or outstanding) to the relevant Eligible Person in the 12-month period up to and including the date of such grant would exceed 1% of the total number of shares in issue at such time.

(e) Subscription price

The price at which each share subject to an option may be subscribed for on the exercise of that option shall be a price solely determined by the Board and notified to an Eligible Person and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares.

(f) Time of exercise of option and duration of the Post-IPO Scheme

The Post-IPO Scheme shall be valid and effective for a period of ten years commencing from 10 May 2013; after such date no further share option shall be granted. Subject to the above, in all other respects, in particular, in respect of options remaining outstanding on the expiry of the ten-year period, the provisions of the Post-IPO Scheme shall remain in full force and effect. The Post-IPO Scheme does not stipulate either a minimum period for which an option must be held or any performance targets a grantee is required to achieve before an option may be exercised. However, the Board may at its discretion specify any conditions which must be satisfied before the option may be exercised in the offer letter whereby the option is offered.

(g) Expiry of option

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

(i) the expiry of the period during which the option may be exercised;

(ii) subject to a general offer by way of a take-over is made to all the shareholders of the Company and such offer becomes or is declared unconditional, the expiry of the 21-day period during which the grantee may by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice;

(iii) subject to the scheme of arrangement becoming effective, the expiry of the period during which the grantee may by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice;

(iv) subject to the compromise or arrangement becoming effective, the expiry of the period as specified in the Post-IPO Scheme during which the grantee may exercise any of his options in full or in part;

(v) the date on which the grantee ceases to be an Eligible Person for any reason, or die or becomes permanently disable, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts, or has become insolvent, or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;

(vi) subject to a notice being given by the Company to its shareholders to convene a general meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the date of commencement of the winding-up of the Company;

(vii) the date on which the grantee commits a breach of the transfer restrictions of the options as specified in the Post-IPO Scheme;

(viii) the date on which the option is cancelled by the Board with the approval of the grantee of such option; or

(ix) the non-fulfillment of any condition to the Post-IPO Scheme on or before the date stated therein.

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.

The following table sets out particulars of the options granted and outstanding under the Post-IPO Scheme and their movements during the year:

Category/ name of grantees	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2017	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
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

DISCLOSURE OF INTERESTS

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

As at 31 December 2017, 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 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%

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%

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

As at 31 December 2017, 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%
Wellington Management Group LLP	Investment Manager	117,458,320[(4)]	6.92%

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.

(4) 91,237,000 shares are held by Wellington Management Hong Kong Ltd, which is 100% controlled by Wellington Management Global Holdings, Ltd., which in turn is 94.10% controlled by Wellington Investment Advisors Holdings LLP ("WIAH"). 26,221,320 shares are held by Wellington Management Company LLP, which is 99.99% controlled by WIAH. WIAH is 99.99% controlled by Wellington Group Holdings LLP, which is then 99.70% controlled by Wellington Management Group LLP.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2017 is contained in note 33 to the consolidated financial statements. The transactions between the Group and Mr. Zhang Jun (張軍), Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) and Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司), respectively as described in note 33 fall under the definition of connected transactions under Chapter 14A of the Listing Rules, and also constitute related party transactions of the Group as disclosed on page 140 of this annual report. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such connected transactions.

Particulars of the connected transaction and continuing connected transactions that are not exempt under Rule 14A.76 of the Listing Rules are set out as follows:

Connected Transaction

On 25 September 2017, Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) (the "Vendor"), and Beijing Huashi Hailong Oil Investments Co., Ltd. (the "Purchaser") entered into the Equity Transfer Agreement ("Equity Transfer Agreement"), pursuant to which the Vendor agreed to dispose of, and the Purchaser agreed to purchase 100% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司) (the "Target Company"), at a consideration of RMB35,000,000 in cash.

The Purchaser has engaged an independent valuer, PricewaterhouseCoopers Consultants (Shenzhen) Limited, Beijing Branch, to conduct a valuation on the Target Company (the "Valuation Report"). The consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to, among other things, the Valuation Report. Pursuant to the Valuation Report, the valuation of the Target Company as of 30 June 2017 ranging from RMB28,067,000 to RMB29,954,000 with an intermediate value of approximately RMB29,000,000.

The Directors (including the independent non-executive Directors but excluding Mr. Zhang Jun and Ms. Zhang Shuman) were of the view that the basis of determining the consideration for the disposal under the Equity Transfer Agreement, which are determined based on arm's length negotiations between the parties and on normal commercial terms, is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

As at 31 December 2017, the Purchaser is a Director and the controlling shareholder of the Company, and thus a connected person of the Company under the Listing Rules. Accordingly, the disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Given that each of the applicable percentage ratios under Chapter 14 of the Listing Rules is on an annual basis more than 0.1% but less than 5%, the transaction under the Equity Transfer Agreement was exempt from the shareholders' approval requirement but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions

On 28 December 2016, Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) ("Beijing Huashi Investments"), as landlord, entered into three tenancy agreements with Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) ("Hilong Oil Service"), as tenant.

Pursuant to tenancy agreement no. 1 ("Tenancy Agreement No. 1"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent the same premises under the 2014–2016 Tenancy Agreements with a total leasing area of 1,850.32 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 1 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB610,644.15, RMB627,528.32 and RMB644,412.49 respectively.

Pursuant to tenancy agreement no. 2 ("Tenancy Agreement No. 2"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent additional office premises within the same building with a total leasing area of 476.99 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 2 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB151,903.43, RMB156,255.96 and RMB160,608.50 respectively.

Pursuant to tenancy agreement no. 3 ("Tenancy Agreement No. 3", and together with Tenancy Agreement No. 1, Tenancy Agreement No. 2, the "Tenancy Agreements"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent additional office premises within the same building with a total leasing area of 126.12 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 3 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB28,349.15, RMB29,499.99 and RMB30,650.84 respectively.

Beijing Huashi Investments as the landlord of Tenancy Agreement No. 2 and Tenancy Agreement No. 3, Hilong Oil Service as the original tenant of Tenancy Agreement No. 2 and Tenancy Agreement No. 3 and Hilong Energy Technology Co., Ltd. (海隆能源技術有限公司) ("Hilong Energy Technology"), a wholly-owned subsidiary of the Company, entered into two supplemental agreements dated 10 April 2017 (the "Supplemental Agreements"). Pursuant to the Supplemental Agreements, Hilong Oil Service agreed to transfer all its rights and obligations under Tenancy Agreement No. 2 and Tenancy Agreement No. 3 respectively to Hilong Energy Technology. All other terms and conditions under Tenancy Agreement No. 2 and Tenancy Agreement No. 3 remain the same. The Supplemental Agreements take retrospective effect as from 21 March 2017.

The monthly rental of each of the Tenancy Agreements was determined based on: (i) the historical rental amounts payable by Hilong Oil Service under the previous tenancy agreement for the two years ended 31 December 2015 and the nine months ended 30 September 2016; (ii) the prevailing market rents (which was obtainable as public information and after consulting the advice of several reputable local real estate agents for benchmarks of assessment of the monthly rental for the three years ending 31 December 2019); (iii) rental levels of similar properties in the vicinity of the leased premises (taking into account factors such as leased areas and floor levels); (iv) the conditions of the leased premises; (v) the location of the leased properties; and (vi) the availability of properties with similar sizes and in similar locations.

The annual caps for the leasing of the leased properties under the Tenancy Agreements for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB9,490,762, RMB9,759,412 and RMB10,028,062 respectively. The annual caps were determined having taken into account the amounts payable or estimated figures to be paid by the Group under the Tenancy Agreements for the three years ending 31 December 2019. As the highest applicable percentage ratio for the transactions contemplated under the Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the lease of the premises under the Tenancy Agreements is exempt from the independent shareholders' approval requirement but is subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules. For more particulars in relation to the Tenancy Agreements and the transactions contemplated thereunder, please refer to the announcement of the Company dated 28 December 2016.

On 1 August 2017, Beijing Huashi Investments, as landlord, entered into a tenancy agreement (the "New Tenancy Agreement 1") with Hilong Energy Technology, as tenant, under which Beijing Huashi Investments agreed to lease to Hilong Energy Technology office premises in Beijing with a gross floor area of 276.74 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal.

On 1 August 2017, Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司) ("Longshi Investment"), as landlord, entered into a tenancy agreement (the "New Tenancy Agreement 2") with Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) ("Hilong Group of Companies"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Group of Companies office premises in Shanghai with a gross floor area of 1,008 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal. As at the date of this annual report, no rent has been incurred under the new Tenancy Agreement 2 as Hilong Group of Companies has not occupied the office premises.

On 1 August 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "New Tenancy Agreement 3") with Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司) ("Hilong Shine New Material"), a former subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Shine New Material office premises in Shanghai with a gross floor area of 411.12 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal. Hilong Shine New Material ceased to be the Company's subsidiary after the disposal of 100% of the equity interest in Hilong Shine New Material pursuant to the Equity Transfer Agreement dated 25 September 2017. Therefore, this transaction no longer constitutes a continuing connected transaction of the Company.

On 1 August 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "New Tenancy Agreement 4") with Hilong Petroleum Offshore Engineering Limited (海隆石油海洋工程有限公司) ("Hilong Petroleum Offshore Engineering"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Petroleum Offshore Engineering the office premises in Shanghai with a gross floor area of 1,046.58 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal.

On 1 August, 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "New Tenancy Agreement 5") with Hilong Petroleum Offshore Engineering Services (Shanghai) Co., Ltd. (海隆石油海洋工程服務（上海）有限公司) ("Hilong Petroleum Offshore Engineering Services"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Petroleum Offshore Engineering Services office premises in Shanghai with a gross floor area of 603.16 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal (the New Tenancy Agreement 1, the New Tenancy Agreement 2, the New Tenancy Agreement 3, the New Tenancy Agreement 4 and the New Tenancy Agreement 5 collectively, the "New Tenancy Agreements").

The monthly rental of each of the New Tenancy Agreements was determined on arm's length basis and on normal commercial terms taking into account: (i) the prevailing market rents with respect to each of the premises (which is obtainable as public information and after consulting several reputable local real estate agents); (ii) the conditions of the premises; (iii) the location of the premises; (iv) rental levels of similar properties in the vicinity of the premises (taking into account factors such as leased areas, floor levels and the age of the building); and (v) the availability of properties with similar sizes and in similar locations.

The terms of the New Tenancy Agreements were negotiated by the parties on an arm's length basis, taking into account prevailing market rentals, but in any event at leasing terms and rental rates no less favourable than those offered to the Group by independent third parties for the same or similar types of leased premises. Based on the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the continuing connected transactions contemplated under the New Tenancy Agreements are fair and reasonable, such continuing connected transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, and the entering into of such continuing connected transactions is in the interests of the Company and its shareholders as a whole. The Directors (including the independent non-executive Directors) are also of the view that the annual caps for the New Tenancy Agreements and the revised annual caps for the Tenancy Agreements and the New Tenancy Agreements set out above are fair and reasonable and in the interests of the Company and its shareholders as a whole.

As at 31 December 2017, Mr. Zhang Jun (張軍), the controlling shareholder and a Director of the Company, holds 95.65% of the interest in Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司), which in turn holds 98.0% of the interest in Beijing Huashi Investments. Meanwhile, Mr. Zhang Jun also directly holds 1.0% of the interest in Beijing Huashi Investments. Further, Beijing Huashi Investments holds 50.0% of the interest in Longshi Investment. As such, each of Beijing Huashi Investments and Longshi Investment is an associate of Mr. Zhang Jun and thus a connected person of the Company under the Listing Rules. The leasing of the premises contemplated under each of the New Tenancy Agreements therefore constitute continuing connected transactions of the Company under Chapter 14A for the Listing Rules.

Given the Tenancy Agreements and the New Tenancy Agreements are (i) similar in nature; (ii) entered into by the Group as tenants and counterparties who are associates of Mr. Zhang Jun as landlords; and (iii) transactions entered into within a 12-month period, the transactions contemplated under the Tenancy Agreements and the New Tenancy Agreements would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

In view of the entering into of the New Tenancy Agreements, the Directors expected that the original annual caps for the three years ending 31 December 2017, 2018 and 2019 in the amount of RMB9,490,762, RMB9,759,412 and RMB10,028,062 respectively under the Tenancy Agreements would not be sufficient and therefore revised the annual caps for the 5 months from 1 August 2017 to 31 December 2017, the two years ending 31 December 2018 and 2019 and the 7 months from 1 January 2020 to 31 July 2020 to RMB12,020,307, RMB16,093,983, RMB16,719,642 and RMB3,921,099, respectively.

Given the highest applicable percentage ratio for the revised annual caps is more than 0.1% but less than 5%, the transactions under the Tenancy Agreements and the New Tenancy Agreements are exempt from the independent's shareholders' approval requirement but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have conducted an annual review on the above continuing connected transactions and confirm that the above transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement (including the pricing policies and guidelines set out therein) governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor, PricewaterhouseCoopers, has issued an unqualified letter to the Board in respect of the continuing connected transactions of the Company disclosed above confirming the matters stated in Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange in accordance with Rule 14A.57 of the Listing Rules.

ISSURANCE OF DEBT SECURITIES

On 22 June 2017, the Company issued US$250,000,000 7.25% senior notes due 2020 (the "2020 Notes"). The offer price of the 2020 Notes was 99.339% of the principal amount of the 2020 Notes. The net proceeds of the 2020 Notes amount to approximately US$244 million and will be used outside of the PRC to refinance the Group's existing indebtedness and for working capital and general corporate purposes. The 2020 Notes, guaranteed by certain non-PRC subsidiaries of the Company, 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. The 2020 Notes will mature on 22 June 2020. The Notes are listed on the Stock Exchange on 23 June 2017.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

A. Facility Agreement dated 28 April 2014

On 28 April 2014, the Company as borrower entered into another facility agreement (the "2014 Facility Agreement") with, amongst others, certain of its offshore subsidiaries as guarantors, The Hongkong and Shanghai Banking Corporation Limited as the mandated lead arranger and bookrunner, and a group of financial institutions as lenders, in relation to a dual-currency term loan facility divided into two tranches: (i) a US dollar term loan facility in the amount of US$74,000,000; and (ii) a Hong Kong dollar term loan facility in the amount of HK$201,500,000, with final maturity of 48 months after the date of the 2014 Facility Agreement and an interest of LIBOR or HIBOR (as the case may be) plus 3.25 per cent. per annum.

The 2014 Facility Agreement contains specific performance obligations imposed on Mr. Zhang Jun, a controlling shareholder of the Company, to the effect that Mr. Zhang Jun to continue, during the term of the 2014 Facility Agreement, (i) to maintain, directly or indirectly, not less than 50% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board. A breach of any of such obligations will constitute an event of default under the 2014 Facility Agreement which enables the lenders to cancel all or any part of their respective commitments under the facility immediately and the outstanding amount under the 2014 Facility Agreement together with interest accrued thereon may become immediately due and payable. For details of the 2014 Facility Agreement, please refer to the announcement of the Company dated 28 April 2014.

As at 31 December 2016, the Group had fully drawn down the aforementioned facility. As at 31 December 2017, the Group had repaid this facility in advance.

B. Facility Agreement dated 30 July 2015

On 30 July 2015, the Company as borrower entered into a facility agreement (the "2015 Facility Agreement") with, amongst others, certain of its offshore subsidiaries as guarantors, China CITIC Bank International Limited and Citigroup Global Markets Asia Limited as the mandated lead arrangers and bookrunners, and a group of financial institutions as lenders in relation to a dual-currency term loan facility divided into two tranches: (i) a US dollar term loan facility in the amount of US$139,777,700; and (ii) a Hong Kong dollar term loan facility in the amount of HK$380,610,825, with final maturity of 36 months after the date of the 2015 Facility Agreement and an interest of LIBOR or HIBOR (as the case may be) plus 3.20 per cent. per annum.

The 2015 Facility Agreement contains specific performance obligations imposed on Mr. Zhang Jun, a controlling shareholder of the Company, to the effect that Mr. Zhang Jun to continue, during the term of the 2015 Facility Agreement, (i) to maintain, directly or indirectly, not less than 45% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board. A breach of any of such obligations will constitute an event of default under the 2015 Facility Agreement which enables the lenders to cancel all or part of their respective commitments under the facility immediately and/or to declare that all or any part of the outstanding amount under the 2015 Facility Agreement together with interest and all other amounts accrued thereon may become immediately due and payable.

As at 31 December 2017, the Group had fully repaid the aforementioned facility.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Executive Directors and Non-executive Directors has confirmed that he/she is neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with the Group's business.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

Each of Mr. Zhang Jun and Hilong Group Limited, being controlling shareholders (the "Controlling Shareholders") of the Company, has entered into a Non-competition Deed (the "Deed"), details as described in the Prospectus, with the Company on 3 March 2011.

The Controlling Shareholders have confirmed their compliance with the non-competition undertakings under the Deed throughout the year of 2017. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders and are satisfied that the Controlling Shareholders have complied with the undertakings.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2017, except for code provisions A.2.1 and E.1.2 of the CG Code. In respect of code provision A.2.1, from 1 January 2017 to 15 December 2017, the roles of chairman and chief executive officer of the Company were not separate and were both performed by Mr. Zhang Jun. However, Mr. Zhang Jun has been re-designated from the chief executive officer of the Company to the executive chairman of the Company and Mr. Wang Tao (汪濤), an executive Director, has been appointed as the chief executive officer of the Company with effect from 15 December 2017. Accordingly, the roles of chairman and chief executive officer of the Company are separate with effect from 15 December 2017. In respect of code provision E.1.2 of the CG Code, Mr. Zhang Jun, the Chairman of the Board, was unable to attend the 2017 annual general meeting held on 23 June 2017 due to unexpected flight cancellation resulting from bad weather conditions. Details of which are further explained in the Corporate Governance Report on pages 30 to 40 of this annual report.

SUBSEQUENT EVENTS

On 18 January 2018, the Company issued US$60,000,000 7.25% senior notes due 2020 to be consolidated and to form a single series with the 2020 Notes (the "Additional 2020 Notes"). The offer price of the Additional 2020 Notes was 100.0% of the principal amount of the Additional 2020 Notes plus accrued interest from and including 22 December 2017 to 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.

On 23 March 2018, the Company passed a resolution of the Board of Directors and proposed to pay a final dividend of HK1.0 cent (equivalent to approximately RMB0.0084) per share to shareholders. Details refer to Note 30.

AUDITOR

The financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, certified public accountants. A resolution for re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Zhang Jun
Chairman

Hong Kong, 23 March 2018

羅兵咸永道

TO THE SHAREHOLDERS OF HILONG HOLDING LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 69 to 149, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter is identified in our audit as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Trade receivables impairment assessment	
Refer to Note 4 (Critical accounting estimates and judgements) and Note 15 (Trade and other receivables) to the consolidated financial statements As at 31 December 2017, the gross carrying amount of trade receivables of the Group was approximately RMB1,908 million, and a provision for impairment of approximately RMB44 million was recorded. Gross trade receivables aged more than one year as at 31 December 2017 amounted to approximately RMB565 million. We focused on this area because of the significant judgements involved in determining the impairment provision of the Group's trade receivables, mainly attributable to the recent global fluctuation of oil and gas prices, the significance of the trade receivables balance and the outstanding balances that were aged more than one year, and the fact that its customers are located in different countries.	We understood and evaluated management's policies, processes and controls over the Group's assessment process in relation to the recoverability of trade receivables balance and its estimation process for determining impairment provision of trade receivables. As part of our risk assessment in this area, we compared the relevant receivables balances brought forward from the prior year against the results of management's impairment assessment made in the prior year to consider, with hindsight, whether management's impairment assessment estimation process had been subject to management bias. Our work on assessing the impairment provision for trade receivables in the current year included: – confirming on a targeted basis significant balances with customers; – testing the reliability of the ageing report; – testing on a scope basis the accuracy of management's ageing analysis of receivable balances; – obtaining management's assessment of the collectability (both amount and timing) of individually significant balances, especially those that were aged more than one year, and corroborating management's assessment against available evidences, including interviewing with sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to the existence of disputes with customers;

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
	– comparing significant subsequent collections with management's historical planned settlement schedule; – based on management's summary of groups of receivables with similar credit risk characteristics (e.g., in the same country or entities within the same group), evaluating management's collective impairment assessment (e.g., using our own knowledge of, for example, the relevant countries and groups) to consider whether additional impairment provision was required for receivables for which no specific provision was recorded; – for the trade receivables that were written off, obtaining evidences to corroborate management's explanations that these customers were experiencing financial difficulties. We found that management's estimates on trade receivables provision are supported by the evidences we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information as set out in the Company's 2017 annual report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2018

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,915,155**	3,139,744
Lease prepayments	7	**86,440**	88,567
Intangible assets	8	**183,406**	173,581
Investments accounted for using equity method	9	**55,629**	57,615
Deferred income tax assets	11	**180,815**	143,198
Other long-term assets	10	**21,460**	4,313
		3,442,905	3,607,018
Current assets			
Inventories	13	**848,700**	798,759
Financial assets at fair value through profit or loss	14	**24,040**	–
Trade and other receivables	15	**2,260,196**	2,040,171
Current income tax recoverable		**35,695**	39,768
Restricted cash	16	**150,006**	155,036
Cash and cash equivalents	16	**389,014**	657,422
		3,707,651	3,691,156
Total assets		**7,150,556**	7,298,174
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	18	**141,976**	141,976
Other reserves	19	**1,136,669**	1,133,443
Currency translation differences		**(114,649)**	15,277
Retained earnings		**2,067,512**	1,963,797
		3,231,508	3,254,493
Non-controlling interests		**232,267**	237,385
Total equity		**3,463,775**	3,491,878

	Note	2017 RMB'000	2016 RMB'000
		As at 31 December	
LIABILITIES			
Non-current liabilities			
Borrowings	*20*	**1,905,440**	1,317,411
Deferred income tax liabilities	*11*	**42,902**	44,113
Deferred revenue	*21*	**21,783**	35,822
		1,970,125	1,397,346
Current liabilities			
Trade and other payables	*22*	**1,119,674**	950,912
Current income tax liabilities		**47,124**	25,416
Borrowings	*20*	**544,012**	1,430,678
Derivative financial instruments	*17*	**–**	1,097
Deferred revenue	*21*	**5,846**	847
		1,716,656	2,408,950
Total liabilities		**3,686,781**	3,806,296
Total equity and liabilities		**7,150,556**	7,298,174

The notes on pages 75 to 149 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 69 to 149 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	5	**2,669,347**	1,929,037
Cost of sales	23	**(1,823,746)**	(1,262,243)
Gross profit		**845,601**	666,794
Selling and marketing expenses	23	**(168,650)**	(125,098)
Administrative expenses	23	**(357,424)**	(311,589)
Other (losses)/gains – net	26	**(94,850)**	262,354
Operating profit		**224,677**	492,461
Finance income	27	**138,722**	8,680
Finance costs	27	**(196,397)**	(332,810)
Finance costs – net		**(57,675)**	(324,130)
Share of profit of investments accounted for using equity method	9	**4,611**	7,297
Profit before income tax		**171,613**	175,628
Income tax expense	28	**(45,913)**	(47,719)
Profit for the year		**125,700**	127,909
Profit attributable to:			
Equity owners of the Company		**119,150**	124,611
Non-controlling interests		**6,550**	3,298
		125,700	127,909
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	29	**0.0702**	0.0735
Diluted earnings per share	29	**0.0702**	0.0735
Dividends	30	**14,180**	15,175

The notes on pages 75 to 149 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit for the year	**125,700**	127,909
Other comprehensive (losses)/income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(129,926)**	132,722
Other comprehensive (losses)/income for the year, net of tax	**(129,926)**	132,722
Total comprehensive (losses)/income for the year	**(4,226)**	260,631
Attributable to:		
Equity owners of the Company	**(10,776)**	257,333
Non-controlling interests	**6,550**	3,298
	(4,226)	260,631

The notes on pages 75 to 149 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Capital and reserves attributable to equity owners						
		Ordinary shares	Other reserves	Retained earnings	Cumulative Translation differences	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016		141,976	1,127,528	1,869,990	(117,445)	3,022,049	234,087	3,256,136
Comprehensive income								
Profit for the year		–	–	124,611	–	124,611	3,298	127,909
Other comprehensive income								
Currency translation differences		–	–	–	132,722	132,722	–	132,722
Total comprehensive income for the year		–	–	124,611	132,722	257,333	3,298	260,631
Appropriation to statutory reserve	*19(a)*	–	1,805	(1,805)	–	–	–	–
Transactions with owners								
Pre-IPO share option plan	*19(b)*	–	140	–	–	140	–	140
2013 Share Option Scheme	*19(b)*	–	3,970	–	–	3,970	–	3,970
Dividends in respect of 2015	*30*	–	–	(28,999)	–	(28,999)	–	(28,999)
As at 31 December 2016		141,976	1,133,443	1,963,797	15,277	3,254,493	237,385	3,491,878
As at 1 January 2017		**141,976**	**1,133,443**	**1,963,797**	**15,277**	**3,254,493**	**237,385**	**3,491,878**
Comprehensive income								
Profit for the year		**–**	**–**	**119,150**	**–**	**119,150**	**6,550**	**125,700**
Other comprehensive losses								
Currency translation differences		**–**	**–**	**–**	**(129,926)**	**(129,926)**	**–**	**(129,926)**
Total comprehensive income/ (losses) for the year		**–**	**–**	**119,150**	**(129,926)**	**(10,776)**	**6,550**	**(4,226)**
Appropriation to statutory reserve	*19(a)*	**–**	**819**	**(819)**	**–**	**–**	**–**	**–**
Transactions with owners								
2013 Share Option Scheme	*19(b)*	**–**	**2,407**	**–**	**–**	**2,407**	**–**	**2,407**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(11,668)**	**(11,668)**
Dividends in respect of 2016	*30*	**–**	**–**	**(14,616)**	**–**	**(14,616)**	**–**	**(14,616)**
As at 31 December 2017		**141,976**	**1,136,669**	**2,067,512**	**(114,649)**	**3,231,508**	**232,267**	**3,463,775**

The notes on pages 75 to 149 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

		Year ended 31 December	
	Note	**2017 RMB'000**	2016 RMB'000
Cash flow from operating activities			
Cash generated from operations	*31(a)*	**314,400**	321,125
Interest paid		**(225,362)**	(134,513)
Income tax paid		**(58,430)**	(47,290)
Net cash generated from operating activities		**30,608**	139,322
Cash flow used in investing activities			
Proceeds from disposal of property, plant and equipment	*31(b)*	**38,151**	37,773
Dividends received		**–**	4,095
Purchases of property, plant and equipment		**(233,215)**	(133,776)
Purchases of intangible assets	*8*	**(14,372)**	(2,607)
Proceeds from disposal of a subsidiary of the Group	*26*	**30,381**	–
Net cash used in investing activities		**(179,055)**	(94,515)
Cash flows used in financing activities			
Proceeds from borrowings		**2,721,722**	1,512,604
Repayments of borrowings		**(2,831,874)**	(1,601,851)
Net cash inflow/(outflow) arising from security deposit for bank borrowings	*20(a)*	**57,284**	(70,500)
Net cash outflow arising from financial instruments		**(24,210)**	(14,314)
Dividends paid	*30*	**(24,265)**	(28,999)
Net cash used in financing activities		**(101,343)**	(203,060)
Net decrease in cash and cash equivalents		**(249,790)**	(158,253)
Exchange losses on cash and cash equivalents		**(18,618)**	(5,689)
Cash and cash equivalents at beginning of the year		**657,422**	821,364
Cash and cash equivalents at end of the year		**389,014**	657,422

The notes on pages 75 to 149 are an integral part of these consolidated financial statements.

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 and offshore engineering 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 consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 23 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of deferred tax assets for unrealised losses – amendments to HKAS 12, and

- Disclosure initiative – amendments to HKAS 7.

The adoption of these new and amended standards and interpretations did not have any impact on the current period or any prior period and is not likely to affect future periods.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 31(c).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

HKFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the whole of HKAS 39. HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred losses model in HKAS 39. HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39. HKFRS 9 is effective for accounting period beginning on or after 1 January 2018 and the Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. It is not expected to have significant impact on the consolidated financial statement of the Group.

HKFRS 15, 'Revenue from contracts with customers', establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. HKFRS 15 replaces the previous revenue standards: HKAS 18 'Revenue' and HKAS 11 'Construction Contracts' and the related Interpretations on revenue recognition: HKFRIC 13 'Customer Loyalty Programmes', HKFRIC 15 'Agreements for the Construction of Real Estate', HKFRIC 18 'Transfers of Assets from Customers' and SIC-31 'Revenue – Barter Transactions Involving Advertising Services'. HKFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

The application of HKFRS 15 may further result in the identification of separate performance obligations in relation to shipping service derived from overseas trading sales of the Group which could affect the timing of the recognition of revenue, from point in time to overtime going forward. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

HKFRS 16, 'Leases', provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. HKFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a 'right-of-use-asset' for almost all lease contracts, with an exemption for certain short-term leases and leases of low value assets. The lessors accounting stays almost the same as under HKAS 17 'Leases'. HKFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

The standard will affect primarily the accounting for the Group's operating leases when the Group is as the leasee in those leases. As at the reporting date, the Group has non-cancellable operating lease commitments, as disclosed in Note 32(b). The Group is still evaluating the effects of the new standard on the other lease commitments with the lease term greater than one year and intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) *Business combinations (continued)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "Share of profit of investments accounted for using equity method" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "Finance income or costs". All other foreign currency translation gains and losses are presented in the consolidated income statement within "Other (losses)/ gains–net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation (continued)

(b) Transactions and balances (continued)

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

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint venture that do not result in the group losing significant influence or joint control), the proportionate share of the accumulated currency translation difference is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment

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

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

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

	Years
Freehold land	Nil
Buildings and facilities	5 to 40 years
Machinery and equipment	3 to 25 years
Office and electronic equipment	3 to 10 years
Vehicles	3 to 10 years
Leasehold improvements	5 to 10 years

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gain and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other (losses)/gains – net" in the consolidated income statement.

2.8 Lease prepayments

Lease prepayments represent upfront payments made for the land use rights. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of impairment losses (Note 2.10), if any.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Computer software

Acquired computer software license are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over their estimated useful lives of 2 to 10 years.

(c) Proprietary technologies

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

2.10 Impairment of non-financial assets

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

2.11 Financial assets

(a) Classification

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

(a) Classification (continued)

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade and other receivables", "Restricted cash" and "Cash and cash equivalents" in the consolidated balance sheet (Notes 15 and 16).

(b) Recognition and measurement

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

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "Other (losses)/gains – net" in the period in which they arise.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(d) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

(d) Impairment of financial assets (continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.12 Inventories

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

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Restricted cash

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

2.16 Ordinary shares

Ordinary shares are classified as equity.

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

2.17 Trade and other payables

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

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

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

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

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

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Employee benefits

(a) Pension obligations

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

(b) Housing benefits

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

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Share-based payments (continued)

(b) Share-based payment transactions among group entities

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 services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.23 Provisions

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

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

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

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and services provided in the ordinary course of the Group's activities. Revenue is stated net of value-added tax, returns and discounts and after eliminating sales within the Group.

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

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

Revenue from sales of drill pipes, coating materials and related products is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Rendering of oilfield and pipe-laying services

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(b) Rendering of oilfield and pipe-laying services (continued)

Pipe-laying services are provided on a fixed-price basis, with contract term generally less than one year. Revenue is recognised under the percentage-of-completion method when the outcome of a contract can be estimated reliably and is measured by reference to the proportion of contract costs incurred for work performed to date to estimated total contract costs for each contract.

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

(c) Rendering of coating and engineering modelling assessment service

Revenue generated from coating service and engineering modelling assessment service is recognised in the accounting period in which the services are rendered.

(d) Interest income

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

(e) Dividend income

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

2.25 Government grants

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

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.26 Operating leases (as a lessee)

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

2.27 Dividend distribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Research and development

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

3 FINANCIAL RISK MANAGEMENT

3.1 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivatives financial instruments to partially hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD") and Hong Kong dollar ("HKD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. In 2016, the Group entered into certain foreign exchange forward contracts (Note 17) to partially manage its exposure to USD from recognised liabilities, which was settled in 2017.

As at 31 December 2017, if USD and HKD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB50,024,000 higher/lower as a result of foreign exchange gains/losses (2016: RMB33,167,000 higher/lower as a result of foreign exchange gains/losses) on translation of USD or HKD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, and borrowings.

(ii) Cash flow and fair value interest rate risk

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

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of cash and cash equivalents and restricted cash are not expected to change significantly.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 20.

As at 31 December 2017, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB271,000 (2016: RMB1,090,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables 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.

The table below sets out the bank deposit balances with the major counterparties as at 31 December 2017 and 2016:

Counterparty	Rating	As at 31 December 2017 RMB'000	 2016 RMB'000
China Construction Bank*	A	**124,470**	95,341
HSBC*	AA–	**99,927**	76,886
Zenith Bank Plc*	B	**46,534**	48,841
Bank of China*	A	**34,055**	49,186
China CITIC Bank Co., Ltd.*	BBB+	**31,631**	627
Faysal Bank	N/A	**30,135**	39,002
Bank of Ningbo Co., Ltd.**	BAA3	**29,493**	50,731
Emirates Islamic Bank**	A3	**18,697**	16,687
China Everbright Bank**	BAA2	**14,969**	–
Citi Bank, N.A*	A+	**13,162**	56,854
Hua Xia Bank Co., Ltd.	N/A	**13,136**	–
Banco Pichincha	N/A	**12,901**	3,479
Societe Generale*	A	**11,967**	8,581
Industrial and Commercial Bank of China Ltd.*	A	**8,249**	39,498
Agricultural Bank of China*	A	**3,884**	7,461
Bank Melli Iran	N/A	**613**	13,664
Far Easten International Bank**	B2	**440**	14,948
China Merchants Bank Co., Ltd.*	BBB+	**355**	44,328
Bank of Shanghai Co., Ltd.**	BAA3	**6**	29,900
Development Bank of Singapore*	A+	**–**	80,938
Promsvyazbank*	B+	**–**	85,532

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group establishes policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers and volume of sales. Please refer to Note 15 for an ageing analysis of the Group's receivables. Management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors. A considerable portion of sales were made to the several major oil and gas operators and their affiliates within both PRC and overseas countries, which have good credit reputation and trading records with the Group. The directors of the Company do not expect any significant concentrations of credit risk.

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects 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 balance sheet date 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 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**
As at 31 December 2016					
Borrowings and interest payables	1,555,172	1,345,491	427	54	2,901,144
Trade and other payables (excluding advances from customers, interest payables, staff salaries and welfare payables and other tax liabilities)	752,456	–	–	–	752,456
Derivative financial instruments	1,170	–	–	–	1,170
	2,308,798	1,345,491	427	54	3,654,770

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

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

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

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

The gearing ratios as at 31 December 2017 and 2016 are as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Total borrowings *(Note 20)*	**2,449,452**	2,748,089
Less: Cash and cash equivalents *(Note 16)*	**(389,014)**	(657,422)
Financial assets at FVTPL *(Note 14)*	**(24,040)**	–
Net debt	**2,036,398**	2,090,667
Total equity	**3,463,775**	3,491,878
Total capital	**5,500,173**	5,582,545
Gearing ratio	**37.02%**	37.45%

The slight decrease in gearing ratio as at 31 December 2017 was mainly due to the decrease in borrowings. The Group expects the gearing ratio would be between 20% and 40% in future years.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 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:

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table sets out the Group's financial assets and liabilities that were measured at fair value as at 31 December 2017 and 2016:

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**

As at 31 December 2016	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Derivative financial instruments-current				
Foreign exchange forward contracts	–	1,097	–	1,097

There were no transfers among levels during the years ended 31 December 2017 and 2016.

(a) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of foreign exchange forward contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

	Financial assets at FVTPL
As at 1 January 2017	–
Addition	24,260
Losses recognised in profit or loss	(220)
As at 31 December 2017	24,040
Total losses for the year included in profit or loss for assets held at the end of the year, under "Finance cost – net"	(220)
Changes in unrealized losses for the year included in profit or loss at the end of the year	(220)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment for receivables

The credit period granted to customers is between 30 to 270 days. The trade and other receivables which are past due are analyzed in Note 15. In the opinion of the Company's directors, delay in receiving payments from the customers is mainly attributable to unfavorable market conditions of the oil and gas industry and delayed commencement of oil and gas exploratory or production activities due to various reasons beyond the Group's control as a result of the slow recovery of the global economy.

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability and the time value of the proceeds from settlements of trade and other receivables. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the past collection history of each counterparty, the current creditworthiness, and the current market condition. In the opinion of the Company's directors, the major customers of the Group are state-owned companies in the PRC and overseas countries, which account for over 48% of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and prevailing market conditions, the Group does not expect any significant losses from non-performance by these counterparties.

At each balance sheet date, the Group assesses the time value of the proceeds from settlements of trade and other receivables based on the current expectation of the collection period, and the difference between the carrying amount and the present value of the estimated future cash flows is not expected to be significant.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Useful lives of property, plant and equipment

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

(c) Current and deferred income taxes

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

(d) Estimated write-downs of inventories

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

(e) Impairment assessment of goodwill

The Group tested annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Notes 2.9 and 2.10. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations require the use of estimates. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount even if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

5 SEGMENT INFORMATION

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

Senior executive management considers the business from a business perspective, and assesses the performance of the business segment based on profit before income tax without allocation of finance costs, share of profit of investments accounted for using equity method and corporate overheads, which is consistent with that in the consolidated financial statements.

The corporate overheads are not considered as business segment expenses in 2017 and 2016 as such expenses are 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 consolidated financial statements. These assets are allocated based on the operations of the segments. Investments accounted for using equity method are not considered to be segment assets but rather are centrally managed by the treasury function.

5 SEGMENT INFORMATION (continued)

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

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 purposes;
- 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 years ended 31 December 2017 and 2016 are set out as follows:

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Oilfield equipment manufacturing and services	**1,316,232**	781,190
Line pipe technology and services	**329,536**	371,308
Oilfield services	**880,745**	708,699
Offshore engineering services	**142,834**	67,840
	2,669,347	1,929,037

5 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2017 is as follows:

	Year ended 31 December 2017				
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
Revenue					
Segment revenue	1,384,078	382,700	880,745	142,834	2,790,357
Inter-segment sales	(67,846)	(53,164)	–	–	(121,010)
Revenue from external customers	1,316,232	329,536	880,745	142,834	2,669,347
Results					
Segment gross profit	423,813	80,407	311,784	29,597	845,601
Segment profit	85,928	14,166	180,866	1,452	282,412
Corporate overheads					(57,735)
Operating profit					224,677
Finance income					138,722
Finance costs					(196,397)
Share of profit of investments accounted for using equity method					4,611
Profit before income tax					171,613
Other information					
Depreciation of property, plant and equipment	81,446	16,844	110,084	57,361	265,735
Amortization of lease prepayments	1,223	904	–	–	2,127
Amortization of intangible assets	905	201	112	977	2,195
Capital expenditure	120,347	9,480	61,135	41,793	232,755

	As at 31 December 2017				
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
Segment assets	3,066,416	489,163	2,190,411	1,348,937	7,094,927
Investments accounted for using equity method					55,629
Total assets					7,150,556
Total liabilities	3,198,553	140,982	305,390	41,856	3,686,781

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2016 is as follows:

	Year ended 31 December 2016				
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
Revenue					
Segment revenue	874,320	416,408	708,699	67,840	2,067,267
Inter-segment sales	(93,130)	(45,100)	–	–	(138,230)
Revenue from external customers	781,190	371,308	708,699	67,840	1,929,037
Results					
Segment gross profit/(losses)	252,013	118,663	296,372	(254)	666,794
Segment profit/(losses)	274,273	63,346	221,682	(1,826)	557,475
Corporate overheads					(65,014)
Operating profit					492,461
Finance income					8,680
Finance costs					(332,810)
Share of profit of investments accounted for using equity method					7,297
Profit before income tax					175,628
Other information					
Depreciation of property, plant and equipment	70,050	13,579	103,003	51,777	238,409
Amortization of lease prepayments	1,223	904	–	–	2,127
Amortization of intangible assets	411	187	–	976	1,574
Capital expenditure	105,519	4,423	94,269	65,097	269,308

	As at 31 December 2016				
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
Segment assets	2,912,830	719,890	2,279,368	1,328,471	7,240,559
Investments accounted for using equity method					57,615
Total assets					7,298,174
Total liabilities	3,152,492	241,305	371,919	40,580	3,806,296

5 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:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Russia, Central Asia and East Europe	**908,926**	479,344
The PRC	**799,886**	716,924
South Asia and Southeast Asia	**427,483**	239,449
North and South America	**239,731**	242,997
Africa	**238,222**	211,443
Middle East	**53,916**	38,852
Others	**1,183**	28
	2,669,347	1,929,037

The following table sets out 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 areas in which the assets are located:

	Carrying amount of segment assets As at 31 December	
	2017	2016
	RMB'000	RMB'000
The PRC	**1,905,547**	2,056,905
North and South America	**409,885**	475,879
South Asia and Southeast Asia	**270,128**	247,784
Africa	**254,024**	316,258
Russia, Central Asia and East Europe	**239,324**	173,235
Middle East	**106,093**	131,831
	3,185,001	3,401,892

5 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

The following table sets out 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 areas in which the assets are located:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
The PRC	**82,492**	93,181
Russia, Central Asia and East Europe	**81,836**	84,838
South Asia and Southeast Asia	**52,110**	67,939
North and South America	**26,145**	11,812
Africa	**2,775**	10,485
Middle East	**(12,603)**	1,053
	232,755	269,308

6 PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016							
Cost	527,618	2,893,745	41,440	28,406	17,049	330,938	3,839,196
Accumulated depreciation	(105,099)	(641,901)	(26,218)	(21,016)	(7,173)	–	(801,407)
Net book amount	422,519	2,251,844	15,222	7,390	9,876	330,938	3,037,789
Year ended 31 December 2016							
Opening net book amount	422,519	2,251,844	15,222	7,390	9,876	330,938	3,037,789
Transferred from construction in progress	14,490	178,482	2,118	–	–	(195,090)	–
Transferred from leasehold improvements	4,940	–	–	–	(4,940)	–	–
Additions	2,171	138,782	2,049	302	–	123,397	266,701
Disposals *(b)*	–	(86,519)	(260)	(53)	–	(209)	(87,041)
Other deductions *(a)*	–	(34,653)	–	–	–	–	(34,653)
Depreciation *(Note 23)*	(22,998)	(209,021)	(3,597)	(1,827)	(966)	–	(238,409)
Currency translation differences	14,778	160,443	544	138	262	19,192	195,357
Closing net book amount	435,900	2,399,358	16,076	5,950	4,232	278,228	3,139,744
At 31 December 2016							
Cost	565,878	3,211,161	46,271	28,031	10,433	278,228	4,140,002
Accumulated depreciation	(129,978)	(811,803)	(30,195)	(22,081)	(6,201)	–	(1,000,258)
Net book amount	435,900	2,399,358	16,076	5,950	4,232	278,228	3,139,744
Year ended 31 December 2017							
Opening net book amount	**435,900**	**2,399,358**	**16,076**	**5,950**	**4,232**	**278,228**	**3,139,744**
Transferred from construction in progress	**5,693**	**280,551**	**158**	**320**	**–**	**(286,722)**	**–**
Additions	**5,248**	**40,307**	**2,524**	**1,503**	**–**	**164,437**	**214,019**
Disposals	**(27)**	**(16,284)**	**(2,364)**	**(212)**	**–**	**–**	**(18,887)**
Other deductions *(a)*	**–**	**(6,685)**	**–**	**–**	**–**	**–**	**(6,685)**
Depreciation *(Note 23)*	**(23,495)**	**(234,518)**	**(4,330)**	**(1,599)**	**(1,793)**	**–**	**(265,735)**
Currency translation differences	**(3,171)**	**(128,335)**	**(155)**	**(69)**	**(22)**	**(15,549)**	**(147,301)**
Closing net book amount	**420,148**	**2,334,394**	**11,909**	**5,893**	**2,417**	**140,394**	**2,915,155**
At 31 December 2017							
Cost	**572,360**	**3,260,690**	**41,574**	**26,884**	**10,433**	**140,394**	**4,052,335**
Accumulated depreciation	**(152,212)**	**(926,296)**	**(29,665)**	**(20,991)**	**(8,016)**	**–**	**(1,137,180)**
Net book amount	**420,148**	**2,334,394**	**11,909**	**5,893**	**2,417**	**140,394**	**2,915,155**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

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

(b) In August 2016, the Group signed a sale and lease back (under operating lease) agreement with Kunlun Financial Leasing Co., Ltd. to sell one drilling rig with net book amount of USD12,949,573, the consideration of this transaction was USD14,538,672. In the same month, the Group leased back the drilling rig with monthly rental payable of USD215,309 for a leasing period of 54 months.

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of sales	**244,212**	218,398
Administrative expenses	**19,767**	18,696
Selling and marketing expenses	**1,756**	1,315
	265,735	238,409

7 LEASE PREPAYMENTS

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Outside of Hong Kong:		
– Lease between 10 to 50 years	**86,440**	88,567

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening net book value	**88,567**	90,694
Amortization charges *(Note 23)*	**(2,127)**	(2,127)
Closing net book value	**86,440**	88,567

The amortization of lease prepayments has been charged to administrative expenses in the consolidated income statement.

8 INTANGIBLE ASSETS

	Goodwill (a) RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2016				
Cost	149,242	4,862	9,109	163,213
Accumulated amortization	–	(1,613)	(3,148)	(4,761)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	149,242	1,152	5,961	156,355
Year ended 31 December 2016				
Opening net book amount	149,242	1,152	5,961	156,355
Additions	–	2,526	81	2,607
Amortization charge *(Note 23)*	–	(169)	(1,405)	(1,574)
Currency translation differences	16,080	–	113	16,193
Closing net book amount	165,322	3,509	4,750	173,581
At 31 December 2016				
Cost	165,322	7,388	10,394	183,104
Accumulated amortization	–	(1,782)	(5,644)	(7,426)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	165,322	3,509	4,750	173,581
Year ended 31 December 2017				
Opening net book amount	**165,322**	**3,509**	**4,750**	**173,581**
Additions	**–**	**16,741**	**1,995**	**18,736**
Amortization charge *(Note 23)*	**–**	**(696)**	**(1,499)**	**(2,195)**
Currency translation differences	**(6,619)**	**–**	**(97)**	**(6,716)**
Closing net book amount	**158,703**	**19,554**	**5,149**	**183,406**
At 31 December 2017				
Cost	**158,703**	**24,129**	**12,165**	**194,997**
Accumulated amortization	**–**	**(2,478)**	**(7,016)**	**(9,494)**
Impairment provision	**–**	**(2,097)**	**–**	**(2,097)**
Net book amount	**158,703**	**19,554**	**5,149**	**183,406**

8 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill

Goodwill is allocated to the Group's CGUs identified according to business segments.

A segment level summary of goodwill is presented below:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**158,703**	165,322

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expects cash flow beyond the five-year period will be similar to that of the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using 3% growth rates.

The key assumptions used for value-in-use calculations in the oilfield equipment manufacturing and services segment are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Gross margin	**32%**	32%
Discount rate	**16%**	16%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2017 (2016: nil).

(b) The amortization of intangible assets has been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Administrative expenses	**1,510**	989
Cost of sales	**685**	585
	2,195	1,574

9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Associates	**31,032**	33,019
Joint venture	**24,597**	24,596
	55,629	57,615

The amounts recognised in the consolidated income statement are as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Associates	**4,610**	7,241
Joint venture	**1**	56
	4,611	7,297

(a) Investments in associates

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Beginning of year	**33,019**	34,681
Share of results of associates	**4,610**	7,241
Elimination of unrealized profit	**(3,110)**	(6,604)
Dividends declared	**(3,487)**	(2,299)
End of year	**31,032**	33,019

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(a) Investments in associates (continued)

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

Company name	Country/Place of incorporation and operation and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principal activities
			2017	2016	
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	Shandong, the PRC, 12 February 2007	RMB20,000,000	**30%**	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	Liaoning, the PRC, 22 November 2010	RMB15,000,000	**30%**	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	Shaanxi, the PRC, 20 November 2004	RMB18,000,000	**22.95%**	22.95%	Coating service provision

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

	Assets RMB'000	**Liabilities** RMB'000	**Net assets** RMB'000	**Revenue** RMB'000	**Profit** RMB'000
As at and year ended 31 December 2017	**85,581**	**54,549**	**31,032**	**58,482**	**4,610**
As at and year ended 31 December 2016	98,505	65,486	33,019	59,385	7,241

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

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(b) Investment in a joint venture

	Year ended 31 December 2017 RMB'000	2016 RMB'000
Beginning of year	**24,596**	24,540
Share of results of a joint venture	**1**	56
End of year	**24,597**	24,596

The Group's interest in a joint venture and certain of its financial information attributable to the Group is as follows:

Company name	Country/Place of incorporation and operation and date of incorporation	Paid-up capital	Attributable equity interest to the Group As at 31 December 2017	2016	Principal activities
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	Shaanxi, the PRC, 24 July 2013	RMB50,000,000	**49%**	49%	Coating service provision

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenue RMB'000	Profit RMB'000
As at and year ended 31 December 2017	**25,748**	**1,151**	**24,597**	**–**	**1**
As at and year ended 31 December 2016	33,653	9,057	24,596	2,228	56

There was no contingent liability relating to the Group's interest in its joint venture.

10 OTHER LONG-TERM ASSETS

	As at 31 December 2017 RMB'000	2016 RMB'000
Long-term prepaid expenses	**21,460**	4,313

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**34,870**	44,073
– to be recovered after more than 12 months	**145,945**	99,125
	180,815	143,198
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(42,902)**	(44,113)

Movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets	Tax losses and tax credits carried forward RMB'000	Impairment provision on assets RMB'000	Accruals RMB'000	Unrealized profit (a) RMB'000	Allowance related to capitalized expenditure RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	38,659	5,911	3,455	83,221	5,395	1,699	138,340
Credit/(charged) to the consolidated income statement *(Note 28)*	23,789	196	(754)	(9,611)	–	(763)	12,857
At 31 December 2016	62,448	6,107	2,701	73,610	5,395	936	151,197
Credit/(charged) to the consolidated income statement *(Note 28)*	29,527	2,282	(281)	5,107	–	607	37,242
At 31 December 2017	**91,975**	**8,389**	**2,420**	**78,717**	**5,395**	**1,543**	**188,439**

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

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. Part of the accumulated tax losses recognised as deferred tax assets amounted to RMB725,000, RMB1,995,000, RMB10,924,000, RMB72,652,000, RMB114,314,000, RMB36,175,000 will expire in years ending 31 December of 2018, 2019, 2020, 2021, 2022, 2036 respectively. The remaining portion of the accumulated tax losses amounted to RMB191,572,000 can be carried forward indefinitely.

The Group did not recognise cumulative deferred income tax assets of RMB161,825,000 as at 31 December 2017 (31 December 2016: RMB171,776,000) in respect of the accumulated tax losses of certain subsidiaries.

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries RMB'000	Gains on remeasuring existing equity interests in certain associate and joint ventures on acquisition RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Accelerated tax depreciation expenses RMB'000	Total RMB'000
At 1 January 2016	(38,436)	(3,381)	(3,714)	(6,858)	(52,389)
Credit/(charged) to the consolidated income statement *(Note 28)*	125	–	(1,069)	1,196	252
Currency translation differences	–	–	267	(242)	25
At 31 December 2016	(38,311)	(3,381)	(4,516)	(5,904)	(52,112)
Credit/(charged) to the consolidated income statement *(Note 28)*	2,216	–	49	(1,209)	1,056
Currency translation differences	–	–	311	219	530
At 31 December 2017	**(36,095)**	**(3,381)**	**(4,156)**	**(6,894)**	**(50,526)**

12 SUBSIDIARIES

Detail of the subsidiaries of the Group as at 31 December 2017 and 2016 are set out in Note 34.

13 INVENTORIES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Raw materials	**416,792**	410,863
Work in progress	**74,968**	70,441
Finished goods	**346,505**	299,712
Packing materials	**877**	1,800
Low value consumables	**9,558**	15,943
	848,700	798,759

The cost of inventories recognised as cost of sales amounted to approximately RMB1,069,930,000 for the year ended 31 December 2017 (2016: RMB670,995,000).

During the year ended 31 December 2017 and 2016, the Group has not reversed any inventory provision write-down brought forward from prior years. As at 31 December 2017, inventory provision relating to raw materials and finished goods amounted to RMB4,794,000 (31 December 2016: RMB4,794,000).

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-guaranteed floating interest financial product	**24,040**	–

The non-guaranteed floating income financial products, which was purchased by Shanghai Hilong Drill Pipe Co., Ltd, a subsidiary of the Group, was used to guarantee one of the bank borrowings borrowed in 2017 (Note 20).

Financial assets at fair value through profit or loss were presented within 'financing activities' as part of changes in working capital in the statement of cash flows.

Changes in fair values of financial assets at fair value through profit or loss were recorded in 'Finance costs – net' in the statement of profit or loss (Note 27).

The fair value of the product is based on its present value of future cash flow.

15 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bills receivable *(a)*	**23,013**	34,073
Trade receivables *(b)*	**1,907,681**	1,656,686
– Due from related parties *(Note 33(c))*	**5,925**	12,869
– Due from third parties	**1,901,756**	1,643,817
Less: provision for impairment of receivables *(d)*	**(44,164)**	(33,511)
Trade receivables – net	**1,863,517**	1,623,175
Other receivables *(c)*	**202,317**	196,479
Prepayments	**166,312**	184,894
Dividend receivables *(Note 33(c))*	**5,037**	1,550
Trade and other receivables – net	**2,260,196**	2,040,171

As at 31 December 2017 and 2016, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

15 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2017 and 2016, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
– USD	**1,047,697**	944,882
– RMB	**898,365**	859,087
– RUB	**186,683**	132,277
– KZT	**33,783**	16,793
– AED	**27,969**	25,965
– CAD	**27,591**	22,164
– NGN	**21,370**	23,978
– PKR	**11,731**	6,485
– EUR	**1,733**	34
– MYR	**1,730**	–
– ETB	**820**	114
– HKD	**630**	508
– THB	**54**	–
– SGD	**30**	–
– COP	**10**	7,094
– ALL	**–**	790
	2,260,196	2,040,171

(a) The ageing of bills receivable is within 180 days, which is within the credit terms granted to customers.

(b) The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2017 and 2016 was as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables, gross		
– Within 90 days	**814,464**	623,899
– Over 90 days and within 180 days	**195,656**	134,241
– Over 180 days and within 360 days	**332,458**	234,892
– Over 360 days and within 720 days	**266,502**	510,644
– Over 720 days	**298,601**	153,010
	1,907,681	1,656,686

The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables.

15 TRADE AND OTHER RECEIVABLES (continued)

(b) The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2017 and 2016 was as follows: (continued)

As at 31 December 2017, trade receivables of RMB44,164,000 (31 December 2016: RMB33,511,000) were impaired and fully provided for impairment losses. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at 31 December 2017, trade receivables of RMB1,019,777,000 (31 December 2016: RMB970,243,000) were past due but not impaired. These mainly relate to customers that are state-owned companies in the PRC and overseas countries which have good credit reputation and trading records with the Group. Based on the past experiences, the directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
– Within 90 days	**12,331**	64,203
– Over 90 days and within 180 days	**163,808**	149,400
– Over 180 days and within 360 days	**335,071**	223,380
– Over 360 days and within 720 days	**337,192**	413,806
– Over 720 days	**171,375**	119,454
	1,019,777	970,243

(c) Details of other receivables are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Due from related parties *(Note 33(c))*	**107,262**	104,618
Deposits	**32,738**	36,964
Staff advances	**28,010**	26,447
Value added tax refund	**2,579**	1,561
Others	**31,728**	26,889
	202,317	196,479

15 TRADE AND OTHER RECEIVABLES (continued)

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**(33,511)**	(27,237)
Additional provision *(Note 23)*	**(10,653)**	(6,274)
At the end of the year	**(44,164)**	(33,511)

16 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash at bank and in hand *(a)*	**539,020**	812,458
Less: Restricted cash *(b)*	**(150,006)**	(155,036)
Cash and cash equivalents	**389,014**	657,422

(a) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash.

16 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

(b) Restricted cash represents guarantee deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements (Note 20 (a)).

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Cash at bank and in hand are denominated in:		
– USD	**216,038**	241,238
– RMB	**186,030**	450,907
– RUB	**77,612**	43,909
– NGN	**33,382**	29,053
– AED	**10,524**	20,783
– PKR	**4,559**	11,856
– CAD	**4,236**	9,703
– HKD	**1,982**	2,700
– COP	**1,783**	1,340
– KZT	**1,769**	392
– MYR	**627**	129
– ETB	**225**	120
– EUR	**172**	42
– ALL	**76**	215
– PEN	**5**	71
	539,020	812,458
Restricted cash is denominated in:		
– RMB	**100,839**	138,218
– USD	**47,607**	3,306
– RUB	**1,515**	–
– AED	**45**	13,512
	150,006	155,036

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

17 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Foreign exchange forward contracts *(a)*	–	1,097

(a) Foreign exchange forward contracts

As at 31 December 2016, the Group has foreign exchange forward contracts entered into with a commercial bank. The notional principal amounts of the outstanding forward exchange contracts as at 31 December 2016 were USD5,000,000. These contracts were settled in 2017. Gains and losses arising from the fair value change of the foreign exchange forward contracts were recognised in the consolidated income statements within "finance costs – net".

18 ORDINARY SHARES

	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary shares (In RMB)
As at 1 January 2016	1,696,438,600	169,643,860	141,975,506
As at 31 December 2016	1,696,438,600	169,643,860	141,975,506
As at 31 December 2017	**1,696,438,600**	**169,643,860**	**141,975,506**

19 OTHER RESERVES

	Statutory reserve	Merger reserve	Share options reserve	Share premium	Capital redemption reserve	Capital reserve	Total
As at 1 January 2016	98,848	(141,929)	41,212	1,172,248	702	(43,553)	1,127,528
Appropriation to statutory reserve *(a)*	1,805	–	–	–	–	–	1,805
Pre-IPO share option plan *(b)*	–	–	140	–	–	–	140
2013 Share Option Scheme *(b)*	–	–	3,970	–	–	–	3,970
As at 31 December 2016	100,653	(141,929)	45,322	1,172,248	702	(43,553)	1,133,443
As at 1 January 2017	100,653	(141,929)	45,322	1,172,248	702	(43,553)	1,133,443
Appropriation to statutory reserve *(a)*	819	–	–	–	–	–	819
2013 Share Option Scheme *(b)*	–	–	2,407	–	–	–	2,407
As at 31 December 2017	**101,472**	**(141,929)**	**47,729**	**1,172,248**	**702**	**(43,553)**	**1,136,669**

19 OTHER RESERVES (continued)

(a) Statutory reserve

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

For the year ended 31 December 2017, RMB819,000 (2016: RMB1,805,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

(b) Share options reserve

On 28 February 2011, the Company ratified and adopted an equity-settled "Pre-IPO share option plan" to recognise 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 the 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 grant day. 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 grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(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 options Year ended 31 December 2017	2016
At 1 January	2.60	**29,174,300**	30,743,900
Forfeited	2.60	**–**	(1,569,600)
Current year change	2.60	**390,000**	–
At 31 December	2.60	**29,564,300**	29,174,300

19 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(i) Pre-IPO Share Option Plan (continued)

The share options outstanding (expiry date: 31 December 2020) as at 31 December 2017 and 2016 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding options Year ended 31 December 2017	2016
21 April 2012	2.60	**2,176,900**	2,122,900
21 April 2013	2.60	**6,426,800**	6,342,800
21 April 2014	2.60	**6,973,000**	6,889,000
21 April 2015	2.60	**6,985,800**	6,901,800
21 April 2016	2.60	**7,001,800**	6,917,800
		29,564,300	29,174,300

All of the options were exercisable as at 31 December 2017 and 2016. No options were exercised in 2017 and 2016.

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

	Granting date RMB'000
Total fair value of pre-IPO share options	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

19 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(i) Pre-IPO Share Option Plan (continued)

Share option expenses have been charged to the consolidated income statements (Note 23) as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Administrative expenses	–	120
Selling and marketing expenses	–	16
Cost of sales	–	4
	–	140

(ii) 2013 Share Option Scheme

The movements in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme are as follows:

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2017	2016
Beginning of the period	5.93	**17,221,200**	18,060,300
Forfeited	5.93	–	(839,100)
End of the period	5.93	**17,221,200**	17,221,200

The share options outstanding (expiry date: 4 February 2024) as at 31 December 2017 and 2016 have the following vesting dates and exercise prices:

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
Vesting date		**2017**	2016
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
		17,221,200	17,221,200

Out of the 17,221,200 outstanding options (2016: 17,221,200 outstanding options), 10,332,720 options (2016: 6,888,480 options) were exercisable.

19 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

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	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

Share option expenses have been charged to the consolidated income statement (Note 23) as follows:

	Year ended 31 December **2017** **RMB'000**	 2016 RMB'000
Selling and marketing expenses	**1,944**	3,221
Administrative expenses	**442**	727
Cost of sales	**21**	22
	2,407	3,970

20 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
Bank borrowing – secured *(a)*	**355,261**	–
Bank borrowing – unsecured *(b)*	**660**	1,703,570
Senior Notes – unsecured *(c)*	**1,602,591**	–
Less: Current portion of non-current borrowings – secured *(a)*	**(53,072)**	–
Current portion of non-current borrowings – unsecured *(b)*	**–**	(386,159)
	1,905,440	1,317,411
Current		
Bank borrowings – secured *(a)*	**149,575**	512,223
Bank borrowings – unsecured	**341,365**	532,296
Current portion of non-current borrowings – secured *(a)*	**53,072**	–
Current portion of non-current borrowings – unsecured *(b)*	**–**	386,159
	544,012	1,430,678
	2,449,452	2,748,089

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bank borrowings:		
– USD	**1,705,827**	1,785,758
– HKD	**64,365**	511,460
– RMB	**679,260**	450,871
	2,449,452	2,748,089

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

	6 months or less RMB'000	**Between 6 and 12 months** RMB'000	**Between 1 and 5 years** RMB'000	**Total** RMB'000
As at 31 December 2017	**370,684**	**173,745**	**1,905,023**	**2,449,452**
As at 31 December 2016	2,528,089	220,000	–	2,748,089

20 BORROWINGS (continued)

The maturity of borrowings is as follows:

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
On demand or within 1 year	**544,012**	1,430,678
Between 1 and 2 years	**92,387**	1,316,967
Between 2 and 5 years	**1,813,053**	393
Over 5 years	**–**	51
	2,449,452	2,748,089

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

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Borrowings – current		
– RMB	**4.76%**	4.74%
– HKD	**5.61%**	4.45%
– USD	**5.98%**	4.93%
Borrowings – non-current		
– RMB	**5.89%**	–
– HKD	**–**	5.05%
– USD	**8.19%**	5.16%

Fair values

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Material differences are identified only for the following borrowings:

	As at 31 December 2017	
	Carrying amount RMB'000	**Fair value RMB'000**
Senior Notes	**1,602,591**	**1,622,785**

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
USD facilities	**126,459**	318,915
RMB facilities	**198,616**	492,630
	325,075	811,545

20 BORROWINGS (continued)

(a) Bank borrowings – secured

The bank borrowings of RMB108,665,000 (31 December 2016: RMB168,867,000)were secured by bank deposits of RMB45,760,000 (Note 16(b)) of the Group as at 31 December 2017 (31 December 2016: RMB103,044,000).

As at 31 December 2017, there were bank borrowings of USD3,200,000 borrowed by Shanghai Hilong Drill Pipe Co., Ltd., a subsidiary of the Group, which was secured by a non-guaranteed floating income financial products (Note 14).

As at 31 December 2017, there were bank borrowings of RMB20,000,000 (31 December 2016: 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 amounting to RMB400,000,000. These loan principals were secured by the Controlling Shareholder and his spouse. As at 31 December 2017, RMB385,000,000 were drawn down, out of which RMB19,250,000 had been repaid during 2017, the remaining principals are fully repayable from 2018 to 2020.

In September 2016, the Company entered into USD loan agreements with a financial institution amounted to USD45,000,000. These loan principals were secured by the ultimate Controlling Shareholder of the Group and Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., one of the related parties of the Group. As at 31 December 2017, the Group had fully repaid the loan.

The bank borrowings of RMB11,191,000 were secured by commercial acceptance bills of the Group as at 31 December 2016. As at 31 December 2017, the Group had fully repaid the loan.

(b) Non-current unsecured bank borrowings

In April 2014, the Company entered into a multi-currency loan facility agreement with a syndicate of 9 banks. Pursuant to the agreement, the Company obtained four-year syndicated loan facilities, including a USD74,000,000 facility and a HKD201,500,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 31 December 2017, the Group had fully repaid the loan.

In July 2015, the Company entered into a multi-currency loan facility agreement with a syndicate of 13 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD139,778,000 facility and a HKD380,611,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 31 December 2017, the Group had fully repaid the loan.

(c) Senior Notes

In June 2017, the Company issued a Senior Notes (the "Notes") amounting to USD250,000,000 at a discounted price 99.339%. The 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 Notes were listed on The Stock Exchange of Hong Kong Limited on 23 June 2017 and will mature on 22 June 2020.

21 DEFERRED REVENUE

Deferred revenue represents mobilization fees and government grants relating to certain research projects and production lines. Mobilization fees mainly represent the mobilization cost compensated by corresponding clients which should be deferred and recognised in the consolidated income statement over the service period afterwards. Government grants relating to research projects are recognised in the consolidated income statement over the financial period necessary to match them with the costs that they are intended to compensate; government grants relating to production lines are deferred and recognised in the consolidated income statement on a straight-line basis over the expected useful lives of the related production lines.

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
– Mobilization fees	**5,817**	17,660
– Government grants	**15,966**	18,162
	21,783	35,822
Current		
– Mobilization fees	**5,772**	771
– Government grants	**74**	76
	5,846	847
	27,629	36,669

22 TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bills payable	**165,683**	96,287
Trade payables:	**675,919**	511,514
– Due to third parties	**645,654**	511,514
– Due to related parties *(Note 33(c))*	**30,265**	–
Other payables:	**70,836**	135,965
– Due to related parties *(Note 33(c))(a)*	**36,021**	97,386
– Due to third parties *(b)*	**34,815**	38,579
Staff salaries and welfare payables	**32,843**	45,174
Advances from customers	**114,175**	95,367
Interest payables	**5,362**	21,807
Accrued taxes other than income tax	**40,675**	36,108
Dividends payable	**3,482**	1,463
Other liabilities	**10,699**	7,227
	1,119,674	950,912

(a) As at 31 December 2017 and 2016, there was an unpaid cash consideration amounted to RMB938,000 in relation to the acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd which was completed on 8 May 2014 (Note 33(c)).

(b) As at 31 December 2017 and 2016, there was an unpaid cash consideration due to Kamelon LLC amounted to USD200,000 in relation to the acquisition of Russia Coating Business which was completed on 1 December 2014.

22 TRADE AND OTHER PAYABLES (continued)

As at 31 December 2017 and 2016, all trade and other payables of the Group were non-interest bearing, and their fair values, 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.

As at 31 December 2017 and 2016, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
– RMB	**907,623**	598,095
– RUB	**66,455**	24,958
– USD	**85,468**	273,318
– PKR	**28,647**	13,359
– ETB	**8,660**	6,766
– AED	**8,648**	6,014
– KZT	**7,140**	4,316
– ALL	**3,054**	3,300
– NGN	**1,346**	12,173
– CAD	**1,249**	3,536
– EUR	**1,083**	–
– HKD	**198**	5,077
– MYR	**93**	–
– SGD	**10**	–
	1,119,674	950,912

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade payables, gross		
– Within 90 days	**474,009**	325,061
– Over 90 days and within 180 days	**176,756**	170,397
– Over 180 days and within 360 days	**11,500**	10,400
– Over 360 days and within 720 days	**8,978**	5,458
– Over 720 days	**4,676**	198
	675,919	511,514

23 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress *(Note 13)*	**(51,320)**	97,971
Raw materials and consumables used *(Note 13)*	**1,121,250**	573,024
Employee benefit expenses *(Note 24)*	**490,388**	402,625
Depreciation *(Note 6)*	**265,735**	238,409
Transportation expenses	**132,320**	92,115
Utilities and electricity	**70,404**	53,406
Consulting expenses	**46,861**	40,181
Entertainment expenses	**33,970**	36,761
Research and development expenses	**40,521**	36,082
Travelling and communication expenses	**38,848**	30,024
Operating lease payments	**49,018**	28,896
Taxes and levies	**16,830**	19,288
Marketing and promotion expenses	**19,901**	15,385
Sales commission	**21,320**	9,106
Auditor's remuneration	**4,801**	4,367
Audit services	**3,500**	3,500
Non-audit services	**1,301**	867
Amortization of lease prepayments *(Note 7)*	**2,127**	2,127
Amortization of intangible assets *(Note 8)*	**2,195**	1,574
Amortization of long term prepaid expenses	**9,743**	1,392
Subcontract cost	**9,001**	–
Provision for impairment of receivables *(Note 15(d))*	**10,653**	6,274
Bank charges	**7,895**	3,586
Miscellaneous	**7,359**	6,337
Total cost of sales, selling and marketing expenses and administrative expenses	**2,349,820**	1,698,930

24 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Wages and salaries	**395,564**	329,675
Social security costs	**92,417**	68,840
Share options granted to directors and employees *(Note 19(b)(i), (ii))*	**2,407**	4,110
	490,388	402,625

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 include two (2016: three) directors whose emoluments are reflected in the analysis presented below. The emoluments payable to the remaining three (2016: two) individuals during the year are as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Salaries	**2,223**	1,257
Discretionary bonus	**1,513**	1,298
Social security costs	**242**	141
Share options *(Note 19(b))*	**85**	36
	4,063	2,732

The emoluments fell within the following bands:

	Year ended 31 December	
	2017	2016
Emolument bands:		
Nil to HKD1,500,000	**–**	–
HKD1,500,001 to HKD2,000,000	**3**	2
HKD2,000,001 to HKD2,500,000	**–**	–
HKD2,500,001 to HKD3,000,000	**–**	–
	3	2

No directors or these highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

25 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of every director and chief executive is set out below:

For the year ended 31 December 2017:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking									
	Fees	Salary	Discretionary bonus	Social Security	Share options	Allowance	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2017										
Zhang Jun (張軍)	–	706	751	64	–	–	–	–	–	1,521
Wang Tao (汪濤)	–	728	548	67	–	–	–	–	–	1,343
Zhang Shuman (張姝嫚)	156	235	–	–	–	–	–	–	–	391
Yuan Pengbin (袁鵬斌)	–	772	49	75	–	–	–	–	–	896
Li Huaiqi (李懷奇)	–	193	–	–	–	–	–	–	–	193
Yang Qingli (楊慶理)	260	–	–	–	–	–	–	–	–	260
Wang Tao (王濤)	193	–	–	–	–	–	–	–	–	193
Lee Siang Chin*	32	–	–	–	–	–	–	–	–	32
Liu Haisheng (劉海勝)	193	–	–	–	–	–	–	–	–	193
Wong Man Chung Francis (黃文宗)**	156	–	–	–	–	–	–	–	–	156
Shi Zheyan (施哲彥)***	87	–	–	–	–	–	–	–	–	87
	1,077	2,634	1,348	206	–	–	–	–	–	5,265

* Resigned on 24 March 2017
** Appointed on 24 March 2017
*** Appointed on 25 August 2017

25 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and chief executives' emoluments (continued)

For the year ended 31 December 2016:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking									
	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Social security RMB'000	Share options RMB'000	Allowance RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Year ended 31 December 2016										
Zhang Jun (張軍)	–	731	751	62	5	–	–	–	–	1,549
Wang Tao (汪濤)	–	727	548	65	18	–	–	–	–	1,358
Zhang Shuman (張姝嫚)	–	1,423	–	52	5	–	–	–	–	1,480
Yuan Pengbin (袁鵬斌)	–	772	469	75	18	–	–	–	–	1,334
Li Huaiqi (李懷奇)	–	290	–	–	–	–	–	–	–	290
Yang Qingli (楊慶理)	260	–	–	–	–	–	–	–	–	260
Wang Tao (王濤)	130	–	–	–	–	–	–	–	–	130
Lee Siang Chin	130	–	–	–	–	–	–	–	–	130
Liu Haisheng (劉海勝)	130	–	–	–	–	–	–	–	–	130
	650	3,943	1,768	254	46	–	–	–	–	6,661

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

26 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grants	**10,556**	22,818
Gains on disposal of a subsidiary *(a)*	**8,095**	–
(Losses)/gains on disposal of property, plant and equipment – net	**(1,193)**	15,465
Exchange (losses)/gains	**(114,239)**	222,116
Others	**1,931**	1,955
	(94,850)	262,354

(a) On 25 September 2017, Hilong Group of Companies Ltd. (the "Vendor"), an indirect wholly-owned subsidiary of the Company, and Beijing Huashi Hailong Oil Investments Co., Ltd. (the "Purchaser") entered into an Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to purchase, the Equity Interest, representing 100% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd., at a consideration of RMB35,000,000 in cash. The Group recorded a gain of approximately RMB8,095,000 from the disposal. The consideration was collected in December 2017.

27 FINANCE COSTS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**15,004**	8,680
– Exchange gains	**122,571**	–
– Fair value gains on foreign exchange forward contracts	**1,147**	–
	138,722	8,680
Finance costs:		
– Interest expense on bank borrowings	**(196,177)**	(161,128)
– Fair value losses on financial assets at FVTPL	**(220)**	–
– Exchange losses	**–**	(157,277)
– Fair value losses on interest rate swaps	**–**	(521)
– Fair value losses on foreign exchange forward contracts	**–**	(13,884)
	(196,397)	(332,810)
Finance costs – net	**(57,675)**	(324,130)

28 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current income tax	**84,211**	60,828
Deferred income tax *(Note 11)*	**(38,298)**	(13,109)
Income tax expense	**45,913**	47,719

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before tax	**171,613**	175,628
Tax calculated at statutory tax rates applicable to each group entity	**29,889**	17,370
Tax effect of:		
Expenses not deductible for tax purpose	**1,775**	18,368
Additional deduction for research and development expenses *(b)*	**(6,728)**	(5,182)
Utilisation of previously unrecognised tax losses	**(5,216)**	(6,042)
Tax losses of subsidiaries not recognised	**26,193**	23,205
Tax charge	**45,913**	47,719

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 years ended 31 December 2017 and 2016.

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates of 15% to 34% prevailing in the places in which these enterprises operated for the year ended 31 December 2017 (31 December 2016: 15% to 34%).

The income tax provision of the Group in respect of its operations in the Mainland China has been calculated at the applicable corporate tax rate 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 China is 25%.

28 INCOME TAX EXPENSE (continued)

Certain subsidiaries are qualified for new/high-tech technology enterprises status or incorporated in the western region of the Mainland 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 the 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 can 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 PRC 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.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 29 December 2017 and 30 December 2016, all the earnings generated by the Company's wholly-owned PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB9,993,000 (2016: RMB5,759,000)have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2017 and 2016. As at 31 December 2017, deferred income tax liabilities of RMB67,216,000 (31 December 2016: RMB57,223,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,344,320,000 (31 December 2016: RMB1,144,460,000).

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

The effective income tax rates for the companies with tax preferential treatment are as follows:

	Year ended 31 December	
	2017	2016
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	15%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	15%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	15%
Shanghai Boteng Welding Consumable Co., Ltd.*	**15%**	15%
Shanxi Tangrong Hilong Drill Tools Co., Ltd.*	**15%**	15%

28 INCOME TAX EXPENSE (continued)

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

* Shanghai Hilong Drill Pipe Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2015 to 2017.

* Hilong Drill Pipe (Wuxi) Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2015 to 2017.

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2017 to 2019.

* Hilong Pipeline Engineering Technology Service Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2015 to 2017.

* Shanghai Hilong Shine New Material Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2017 to 2019.

* Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2015 to 2017.

* Sichuan Hilong Petroleum Technology Co., Ltd. is incorporated in the western region of China and is engaged in encouraged industries, and enjoys a preferential income tax of 15% for the six years from 2015 to 2020.

* Shanghai Boteng Welding Consumable Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2015 to 2017.

* Shanxi Tangrong Hilong Drill Tools Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2016 to 2018.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2017 and 2016.

(b) Additional deduction for research and development expenses

Pursuant to the CIT Law, an additional tax deduction relating to research and development expenses incurred is allowed, after the approval by the tax authorities is obtained. This additional allowed deduction is calculated at 50% of the actual research and development expenses incurred.

29 EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2017	2016
Profit attributable to equity owners of the Company *(RMB'000)*	**119,150**	124,611
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic earnings per share *(RMB per share)*	**0.0702**	0.0735

Diluted

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 31 December) 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 31 December 2017, there were 29,564,300 (31 December 2016: 29,174,300) share options outstanding related to Pre-IPO share option plan. For the years ended 31 December 2017 and 31 December 2016, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 31 December 2017, there were 17,221,200 (31 December 2016: 17,221,200) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2017 and 31 December 2016, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

30 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 23 March 2018, a final dividend of HKD0.0100 (equivalent to approximately RMB0.0084) per share for the year ended 31 December 2017 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 11 July 2018 to the shareholders of the Company whose names appear on the register of members of the Company as at 28 June 2018. The total amount is estimated to be HKD16,964,000 (equivalent to approximately RMB14,180,000). These financial statements do not reflect this dividend payable.

The dividend in respect of 2016 of HKD0.0100 (equivalent to RMB0.0086) per share, amounted to a total dividend of HKD16,964,000 (equivalent to RMB14,616,000), 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 year ended 31 December 2017 and paid out.

The dividend in respect of 2015 of HKD0.0200 (equivalent to RMB0.0171) per share, amounted to a total dividend of HKD33,929,000 (equivalent to RMB28,999,000), was approved at the Company's annual general meeting on 24 June 2016. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2016 and paid out.

There is no arrangement that any shareholder of the Company has waived or agreed to waive any dividends.

31 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Profit for the year before income tax	**171,613**	175,628
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**265,735**	238,409
– Amortization of lease prepayments *(Note 7)*	**2,127**	2,127
– Amortization of intangible assets *(Note 8)*	**2,195**	1,574
– Amortization of long term assets *(Note 10)*	**9,743**	–
– Provision for impairment of receivables *(Note 15)*	**10,653**	6,274
– Share of profit of investments accounted for using equity method *(Note 9)*	**(4,611)**	(7,297)
– Gains on disposal of a subsidiary *(Note 26)*	**(8,095)**	–
– Finance costs *(Note 27)*	**72,679**	327,121
– Net losses/(gains) on disposal of property, plant and equipment *(Note 26)*	**1,193**	(15,465)
– Share option expenses *(Note 19(b))*	**2,407**	4,110
	525,639	732,481
Changes in working capital:		
– Increase in trade and other receivables	**(295,808)**	(159,922)
– Increase in inventories	**(125,188)**	(15,471)
– Increase in restricted cash	**(52,254)**	(12,668)
– (Decrease)/Increase in deferred revenue	**(9,040)**	13,376
– Increase/(decrease) in trade and other payables	**271,051**	(236,671)
	(211,239)	(411,356)
– Cash generated from operations	**314,400**	321,125

31 CASH GENERATED FROM OPERATIONS (continued)

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

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Net book amount *(Note 6)*	**18,887**	87,041
Net (losses)/gains on disposal of property, plant and equipment *(Note 26)*	**(1,193)**	15,465
Proceeds from disposal of property, plant and equipment	**17,694**	102,506
Collected in 2017	**8,351**	35,000
Not yet collected *(i)*	**9,343**	67,506
	17,694	102,506

(i) In 2017, RMB29,800,000 of the amount of RMB67,506,000 was collected, and the rest balance was waived under a serial of offsetting agreements signed with third parties.

(c) Net debt reconciliation

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Cash and cash equivalents *(Note 16)*	**389,014**	657,422
Financial assets at FVTPL *(Note 14)*	**24,040**	–
Borrowings – repayable within one year	**(544,012)**	(1,430,678)
Borrowings – repayable after one year	**(1,905,440)**	(1,317,411)
Net debt	**(2,036,398)**	(2,090,667)
Cash and liquid investments	**413,054**	657,422
Gross debt – fixed interest rates	**(2,255,513)**	(788,655)
Gross debt – variable interest rates	**(193,939)**	(1,959,434)
Net debt	**(2,036,398)**	(2,090,667)

31 CASH GENERATED FROM OPERATIONS (continued)

(c) Net debt reconciliation (continued)

	Other assets		Liability from financing activities		
	Cash and cash equivalent RMB'000	Financial assets at FVTPL RMB'000	Borrow due with one year RMB'000	Borrow due after one year RMB'000	Total RMB'000
Net debt as at 1 January 2017	657,422	–	(1,430,678)	(1,317,411)	(2,090,667)
Cash flows	(249,790)	24,260	802,714	(692,562)	(115,378)
Foreign exchange adjustments	(18,618)	–	70,267	70,922	122,571
Commissions	–	–	7,593	44,401	51,994
Amortization	–	–	(23,463)	(10,790)	(34,253)
Other non-cash movements	–	(220)	29,555	–	29,335
Net debt as at 31 December 2017	389,014	24,040	(544,012)	(1,905,440)	(2,036,398)

32 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Property, plant and equipment	**294,039**	10,617

(b) Operating lease commitments

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

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
No later than 1 year	**36,295**	11,878
Later than 1 year and no later than 3 year	**59,999**	23,911
Later than 3 years	**14,344**	8,488
	110,638	44,277

33 RELATED PARTY TRANSACTIONS

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 ultimate parent company of the Group is Hilong Group Limited, which owns 51.97% (31 December 2016: 51.89%) equity interest in the Company as at 31 December 2017. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2017 and 2016, and balances arising from related party transactions as at 31 December 2017 and 2016.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hilong Group Limited
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.

(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) Joint venture of the Group

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

(vi) Subsidiaries of the Group

Details of subsidiaries of the Group refer to Note 34.

* Shanghai Hilong Shine New Material Co., Ltd. was disposed on 30 September 2017.

33 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2017 and 2016, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Sales of goods or services:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**33,094**	93,329
Shanghai Hilong Shine New Material Co., Ltd.	**1,308**	–
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**700**	3,458
	35,102	96,787
Purchase of goods or services:		
Shanghai Hilong Shine New Material Co., Ltd.	**8,776**	–
Rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**9,920**	6,431
Shanghai Longshi Investment Management Co., Ltd.	**1,129**	–
	11,049	6,431
Disposal of a subsidiary:		
Beijing Huashi Hailong Oil Investments Co., Ltd. (Note 26)	**8,095**	–

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.

33 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**4,612**	11,037
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,313**	1,832
	5,925	12,869
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**48,485**	72,915
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**24,192**	29,385
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**19,786**	–
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**6,525**	2,318
Shanghai Hilong Shine New Material Co., Ltd.	**4,377**	–
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**2,382**	–
Hilong Group Limited	**1,515**	–
	107,262	104,618
Prepayment to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**–**	1,018
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**30,265**	–
Other payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**29,712**	–
Beijing Huashi Hailong Oil Investments Co., Ltd.	**4,242**	–
Shanghai Longshi Investment Management Co., Ltd.	**1,129**	–
Mr. Zhang Jun	**938**	938
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.	**–**	79,148
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**–**	17,300
	36,021	97,386
Dividend receivables:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,550**	1,550
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**3,487**	–
	5,037	1,550

The receivables and payables from related parties were unsecured, no interest bearing and repayable on demand.

33 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Salaries	**8,675**	8,272
Discretionary bonus	**4,383**	5,293
Social security costs	**775**	788
Share options	**85**	23
	13,918	14,376

34 SUBSIDIARIES

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) as at 31 December		Direct/ Indirect	Principal activities
			2017	2016		
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 8 March 2002	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	the PRC, 22 October 2003	USD2,960,000	**38.09%**	38.09%	Indirect	Coating service provision
Hilong Group of Companies Ltd.	the PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	the PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Pipeline Engineering Technology Service Co., Ltd.	the PRC, 9 November 2005	RMB50,000,000	**100%**	100%	Indirect	Coating service provision

34 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) as at 31 December 2017	2016	Direct/ Indirect	Principal activities
Shanghai Boteng Welding Consumables Co., Ltd.	the PRC, 29 December 2005	RMB3,000,000	**100%**	100%	Indirect	Manufacture and distribution of hardbanding materials
Hilong Investment Ltd.	Malaysia, 13 September 2006	USD100	**100%**	100%	Indirect	Investment holding
Shanghai Hilong Tubular Goods Research Institute	the PRC, 27 October 2006	RMB5,000,000	**100%**	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Hilong Petroleum Pipe Company LLC	Abu Dhabi, 6 November 2006	AED1,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	the PRC, 17 November 2006	RMB50,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	the PRC, 22 November 2006	RMB30,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006	KZT110,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007	CAD100	**100%**	100%	Indirect	Oil and gas equipment trading and coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	the PRC, 30 April 2007	RMB105,880,000	**95%**	95%	Indirect	Manufacture and distribution of special steel

34 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) as at 31 December 2017	2016	Direct/ Indirect	Principal activities
KeAoTe Petroleum Engineering Co., Ltd.*	the PRC, 1 January 2008	RMB40,000,000	**51%**	51%	Indirect	Manufacture and distribution of oil and gas equipment
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	the PRC, 7 January 2008	RMB20,000,000	**45.4%**	45.4%	Indirect	Coating service provision
Hilong Energy Limited	Hong Kong, 8 July 2008	HKD1	**100%**	100%	Indirect	Investment holding
Hilong Oil Service & Engineering Co., Ltd.	the PRC, 16 July 2008	RMB80,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong USA LLC	USA, 9 November 2008	USD1,030,000	**100%**	100%	Indirect	Oil and gas equipment trading
Shanghai Hilong Special Steel Pipe Co., Ltd.	the PRC, 5 January 2009	RMB120,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	the PRC, 13 January 2009	RMB10,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD5,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltd.	The Republic of Ecuador, 18 March 2009	USD20,000,000	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	the PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	the PRC, 9 June 2009	RMB6,000,000	**100%**	100%	Indirect	Coating service provision

34 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) as at 31 December 2017	2016	Direct/ Indirect	Principal activities
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 18 September 2009	RMB20,000,000	**51%**	51%	Indirect	Coating service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Pipeline Engineering Technology Service Taicang Co., Ltd.	the PRC, 29 September 2010	RMB15,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Sucursal Colombia Ltd.	Columbia, 8 February 2012	COP90,734,500	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	the PRC, 1 November 2012	RMB10,000,000	**100%**	100%	Indirect	Research and development on the technology of coating services
Trade House Hilong-Rus Co. Ltd.	Russia, 25 March 2013	RUB300,000	**100%**	100%	Indirect	Oil and gas equipment trading
Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd.	Pakistan, 4 April 2013	PKR5,000,000	**100%**	100%	Indirect	Oil service provision
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.	the PRC, 11 October 2013	RMB50,000,000	**100%**	100%	Indirect	Research, inspection and repairment of oil and gas equipment
Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited	Hong Kong, 9 December 2013	HKD1,000,000	**70%**	70%	Indirect	Offshore oilfield service provision
Hilong Marine Engineering (Hong Kong) Limited	Hong Kong, 16 December 2013	HKD1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision

34 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) as at 31 December		Direct/ Indirect	Principal activities
			2017	2016		
Hilong USA Holding Corp.	USA, 11 February 2014	USD10	**100%**	100%	Indirect	Investment holding
Texas Internal Pipe Coating, LLC	USA, 26 July 2012	Nil	**100%**	100%	Indirect	Coating service provision
Hilong TIPC Asset Management LLC	USA, 11 February 2014	Nil	**100%**	100%	Indirect	Investment holding
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.	the PRC, 17 April 2014	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Mine Drill Pipe Co., Ltd.	the PRC, 11 April 2014	RMB5,000,000	**80%**	80%	Indirect	Manufacture and distribution of oil and gas equipment
Technomash LLC	Russia, 23 November 2009	RUB62,332,000	**100%**	100%	Indirect	Investment holding
Hilong Offshore Oil Development Co., Ltd.	the PRC, 3 December 2014	USD80,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Drilling & Engineering Service Ltd (Malaysia)	Malaysia, 15 January 2014	USD1,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Albania SHPK	Albania, 28 July 2014	ALL3,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Offshore Engineering Limited	the PRC, 12 March 2014	RMB50,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Petroleum Offshore Engineering Services (Shanghai) Co.Ltd.	the PRC, 18 February 2014	RMB15,000,000	**70%**	70%	Indirect	Offshore design service provision

34 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) as at 31 December		Direct/ Indirect	Principal activities
			2017	2016		
Hilong Petroleum Technical Services Nigeria Limited	Nigeria, 24 March 2014	NGN5,000,000	**51%**	51%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Perú S.A.C.	Peru, 30 March 2015	PEN3,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service DMCC	Dubai, UAE, 28 June 2015	AED160,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Pipeline Service (Surgut)	Russia, 2 March 2017	RUB1,000,000	**100%**	–	Indirect	Coating service provision
Shanghai Zuanbeicai International Trading Co., Ltd	the PRC, 28 June 2017	RMB2,000,000	**100%**	–	Indirect	Distribution and trading of oil and gas equipment
Well X, Inc (US)	USA, 9 July 2017	USD65,000	**62.50%**	–	Indirect	Oilfield service provision
Hilong Oil & Gas Service Co., Ltd	the PRC, 20 March 2017	RMB11,200,000	**100%**	–	Indirect	Oilfield service provision
Hilong Offshore (M) SDN. BHD	Malaysia, 30 August 2017	MYR100	**100%**	–	Indirect	Offshore oilfield service provision
OHJV.SDN.BHD	Malaysia, 21 August 2017	MYR1,000	**100%**	–	Indirect	Offshore oilfield service provision

* Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. was renamed as KeAoTe Petroleum Engineering Co., Ltd in May 2017.

* Shanghai Hilong Shine New Material Co., Ltd. was disposed in September 2017.

* Hilong Oil Service Ltd. (Ethiopian Branch) was liquidated in August 2017.

* The above subsidiaries established in the PRC are in the legal form of limited liability company.

35 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 23 March 2018, a dividend of HKD0.0100 (equivalent to approximately RMB0.0084) per share was proposed. Details refer to Note 30.

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, will bear interest at 7.25% per annum payable semi-annually and mature on 22 June 2020. The details of Original Notes refer to Note 20.

36 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**53,155**	50,748
Current assets			
Trade and other receivables		**4,399,767**	3,946,562
Cash and cash equivalents		**8,867**	18,279
		4,408,634	3,964,841
Total assets		**4,461,789**	4,015,589
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares		**141,976**	141,976
Other reserves	*Note (a)*	**1,220,679**	1,218,272
Retained earnings	*Note (a)*	**19,201**	21,280
Total equity		**1,381,856**	1,381,528
LIABILITIES			
Non-current liabilities			
Borrowings		**1,905,022**	1,316,710
Current liabilities			
Trade and other payables		**1,057,715**	500,388
Borrowings		**117,196**	816,963
		1,174,911	1,317,351
Total liabilities		**3,079,933**	2,634,061
Total equity and liabilities		**4,461,789**	4,015,589

The balance sheet of the Company was approved by the Board of Directors on 23 March 2018 and was signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

36 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (continued)

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
As at 1 January 2016	42,808	1,214,162
Profit for the year	7,471	–
Dividend paid relating to 2015	(28,999)	–
Pre-IPO share option plan	–	140
2013 Share Option Scheme	–	3,970
	21,280	1,218,272
As at 1 January 2017	**21,280**	**1,218,272**
Profit for the year	**12,537**	**–**
Dividend paid relating to 2016	**(14,616)**	**–**
2013 Share Option Scheme	**–**	**2,407**
As at 31 December 2017	**19,201**	**1,220,679**

37 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on 23 March 2018.

HILONG

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

Consolidated Results	For the year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**2,669,347**	1,929,037	2,484,329	2,575,986	2,452,358
Gross profit	**845,601**	666,794	809,906	1,020,579	987,591
Gross profit margin	**31.7%**	34.6%	32.6%	39.6%	40.3%
Operating profit	**224,677**	492,461	424,521	535,792	504,194
Operating profit margin	**8.4%**	25.5%	17.1%	20.8%	20.6%
Profit for the year	**125,700**	127,909	174,111	415,174	370,509
Profit attributable to:					
Equity owners of the Company	**119,150**	124,611	160,893	397,692	344,630
Non-controlling interests	**6,550**	3,298	13,218	17,482	25,879

Consolidated assets, equity and liabilities	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
ASSETS					
Non-current assets	**3,442,905**	3,607,018	3,476,766	3,275,391	2,013,386
Current assets	**3,707,651**	3,691,156	3,587,633	3,351,624	2,793,879
Total assets	**7,150,556**	7,298,174	7,064,399	6,627,015	4,807,265
EQUITY AND LIABILITIES					
Total equity	**3,463,775**	3,491,878	3,256,136	3,143,249	2,873,587
Non-current liabilities	**1,970,125**	1,397,346	1,152,828	1,700,393	610,055
Current liabilities	**1,716,656**	2,408,950	2,655,435	1,783,373	1,323,623
Total liabilities	**3,686,781**	3,806,296	3,808,263	3,483,766	1,933,678
Total equity and liabilities	**7,150,556**	7,298,174	7,064,399	6,627,015	4,807,265

The above summary does not form a part of the consolidated financial statements.