海隆控股有限公司*

Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1623

* For identification purpose only

HILONG

INTERIM REPORT

2017

PURSUE GROWTH IN A STEADY PACE

CONTENTS

This interim report is printed on environmental paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Cheng Pik Yuk (鄭碧玉)

AUDITOR

PricewaterhouseCoopers

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PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Matheson Street
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited[1]
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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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

STOCK CODE

1623

WEBSITE AND CONTACT

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Note: (1) Name changed from Codan Trust Company (Cayman) Limited to Conyers Trust Company (Cayman) Limited with effect from 30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2017		2016	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	495,614	39.4	320,733	34.8
– Oil country tubular goods ("**OCTG**") coating services	94,986	7.6	68,978	7.5
– Drill pipe components	32,203	2.6	1,859	0.2
– Hardbanding	2,335	0.2	2,399	0.3
– Others	20,689	1.6	8,583	0.9
Subtotal	645,827	51.4	402,552	43.7
Line pipe technology and services				
– OCTG coating materials	22,016	1.8	22,271	2.4
– Oil and gas line pipe coating materials	60,451	4.8	46,894	5.1
– Oil and gas line pipe coating services	49,612	3.9	34,032	3.7
– Corrosion Resistant Alloy ("**CRA**") lined pipe	19,041	1.5	6,646	0.7
– Concrete Weighted Coating ("**CWC**") services	43,589	3.5	28,404	3.1
– Pipeline inspection services	3,625	0.3	3,592	0.4
Subtotal	198,334	15.8	141,839	15.4
Oilfield services	374,375	29.8	344,231	37.3
Offshore engineering services	38,241	3.0	33,188	3.6
Total revenue	1,256,777	100.0	921,810	100.0

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

	Six months ended 30 June			
	2017		2016	
	RMB'000	%	RMB'000	%
Russia, Central Asia and East Europe	498,221	39.6	268,876	29.2
The PRC	302,166	24.0	299,405	32.5
South Asia	183,247	14.6	98,367	10.7
Africa	129,380	10.3	80,183	8.7
North and South America	105,896	8.4	153,842	16.7
Middle East	36,853	2.9	19,938	2.1
Others	1,014	0.1	1,199	0.1
Total	1,256,777	100.0	921,810	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue increased by RMB335.0 million, or 36.3%, from RMB921.8 million for the six months ended 30 June 2016 to RMB1,256.8 million for the Interim Period. Such increase was mainly due to the increase in revenue from the oilfield equipment manufacturing and services segment and the line pipe technology and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB243.3 million, or 60.4%, from RMB402.6 million for the six months ended 30 June 2016 to RMB645.8 million for the Interim Period. Such increase primarily reflected a significant increase in revenue derived from the sales of drill pipes, OCTG coating services and drill pipe components.

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

	Six months ended 30 June	
	2017	2016
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**25,954**	13,559
– unit price *(RMB/tonne)*	**18,256**	19,449
Subtotal *(RMB'000)*	**473,808**	263,702
– The PRC market		
– volume *(tonnes)*	**1,451**	3,277
– unit price *(RMB/tonne)*	**15,024**	17,405
Subtotal *(RMB'000)*	**21,806**	57,031
Total *(RMB'000)*	**495,614**	320,733

Revenue from the sales of drill pipes in the international market increased by RMB210.1 million, or 79.7%, from RMB263.7 million for the six months ended 30 June 2016 to RMB473.8 million for the Interim Period. The increase primarily reflected a significant increase of 91.4% in the volume of drill pipes sold from 13,559 tonnes for the six months ended 30 June 2016 to 25,954 tonnes for the Interim Period, partly offset by a 6.1% decrease in average selling price sold in the international market from RMB19,449 per tonne for the six months ended 30 June 2016 to RMB18,256 per tonne for the Interim Period. The increase in the sales volume primarily reflected the large demands from the Russia market and the enhancement of Hilong's brand recognition in the Russia market.

Revenue from the sales of drill pipes in the PRC market decreased by RMB35.2 million, or 61.8%, from RMB57.0 million for the six months ended 30 June 2016 to RMB21.8 million for the Interim Period. The decrease primarily reflected a 55.7% decrease in volume of drill pipes sold in the PRC market from 3,277 tonnes for the six months ended 30 June 2016 to 1,451 tonnes for the Interim Period and, to a lesser extent, a 13.7% decrease in average selling price sold in the PRC market from RMB17,405 per tonne for the six months ended 30 June 2016 to RMB15,024 per tonne for the Interim Period. The decrease in the sales volume primarily reflected that the Company allocated more production capability to the international market, while the decrease in average selling price primarily reflected that the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group decreased in the Interim Period compared to that in the six months ended 30 June 2016.

Revenue from OCTG coating services increased by RMB26.0 million, or 37.7%, from RMB69.0 million for the six months ended 30 June 2016 to RMB95.0 million for the Interim Period. The increase was mainly due to the increased demands for OCTG coating services in the international market as a result of the recovery of capital and operation spending by certain international and PRC oil and gas companies in the Interim Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Line pipe technology and services. Revenue from the line pipe technology and services segment increased by RMB56.5 million, or 39.8%, from RMB141.8 million for the six months ended 30 June 2016 to RMB198.3 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating materials, oil and gas line pipe coating services, CRA lined pipe and CWC services.

The increase in revenue derived from materials and services of oil and gas line pipe coating primarily reflected that the Company made continuous efforts to actively take part in major domestic projects and to strengthen its market position, as well as increased its efforts to explore overseas markets.

The increase in revenue derived from CRA lined pipe primarily reflected that our capacities were occupied by the Dongfang 13-2 gas field project in the Interim Period.

The increase in revenue from CWC services reflected that our capacities were occupied by the subsea crude oil pipeline anti-corrosion contract from Zhejiang Petrochemical Co. Limited in the Interim Period. 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 RMB30.1 million, or 8.8%, from RMB344.2 million for the six months ended 30 June 2016 to RMB374.4 million for the Interim Period. Such increase was attributable to (i) higher oilfield services revenue generated for some drilling rigs that had been relocated and have no work load in the six months ended 30 June 2016, partly offset by (ii) the decrease in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients for the Interim Period as compared to the six months ended 30 June 2016.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period was attributable to approximately RMB24 million from the TIMAS PHE WMO Project and approximately 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 RMB217.6 million, or 36.4%, from RMB597.9 million for the six months ended 30 June 2016 to RMB815.5 million for the Interim Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB117.4 million, or 36.2%, from RMB323.9 million for the six months ended 30 June 2016 to RMB441.3 million for the Interim Period. Gross profit margin was 35.1% for the Interim Period, the same with that for the six months ended 30 June 2016.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB24.5 million, or 48.3%, from RMB50.7 million for the six months ended 30 June 2016 to RMB75.2 million for the Interim Period. These expenses, amounting to 6.0% of revenue for the Interim Period, were higher than 5.5% for the six months ended 30 June 2016. This reflected the sharp increase of total revenue.

Administrative Expenses

Administrative expenses increased by RMB52.8 million, or 35.8%, from RMB147.4 million for the six months ended 30 June 2016 to RMB200.3 million for the Interim Period. Such increase primarily reflected the fact that depreciation expenses of fixed assets have not yet begun to contribute to the revenue, and the increase in staff costs, travelling expenses and office expenses in Russia.

MANAGEMENT DISCUSSION AND ANALYSIS

Other (Losses)/Gain – Net

The Group recognized a net loss of RMB31.8 million for the Interim Period and net gain of RMB102.0 million for the six months ended 30 June 2016. The net loss recognized for the Interim Period primarily reflected an exchange loss of RMB37.5 million from the operating activities as a combined result of the depreciation of the United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**"), and government grants of RMB5.5 million in relation to new and high-technology projects. The net gain recognized for the six months ended 30 June 2016 reflected a net gain of RMB93.6 million in foreign exchange gains and RMB7.2 million of government grants in relation to new and high-technology projects.

Finance Costs – Net

Finance costs – net decreased by RMB95.6 million, or 72.8%, from RMB131.4 million for the six months ended 30 June 2016 to RMB35.8 million for the Interim Period. Such decrease primarily reflected (i) an exchange gain of RMB46.6 million from the financing activities resulting from the depreciation of USD and HKD, while for the six months ended 30 June 2016 the exchange loss was RMB57.0 million; partly offset by (ii) the interest expense from bank borrowings increased from RMB70.0 million for the six months ended 30 June 2016 to RMB94.5 million for the Interim Period.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB96.0 million for the six months ended 30 June 2016 to RMB101.6 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB26.5 million for the six months ended 30 June 2016 and RMB29.0 million for the Interim Period. Effective tax rate was approximately 27.6% for the six months ended 30 June 2016 and 28.5% for the Interim Period.

Profit for the period attributable to equity owners of the Company

As a result of the foregoing, profit for the period attributable to equity owners of the Company decreased from RMB67.0 million for the six months ended 30 June 2016 to RMB65.4 million for the Interim Period.

Inventories

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Inventory	**864,026**	798,759
Turnover days of inventory (in days)(1)	**186**	236

(1) Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 181 for the Interim Period and by 365 for the year ended 31 December 2016. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The decrease in inventory turnover days from 236 days as at 31 December 2016 to 186 days as at 30 June 2017 primarily reflected although the balance of inventory increased, much more cost of sales was recognized to the income statement in the Interim Period compared to that in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

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 dividends receivable. The following table sets forth the components of the trade and other receivables outstanding as at the dates indicated:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Trade receivables		
– Due from third parties	**1,714,478**	1,643,817
– Due from related parties	**16,503**	12,869
– Less: Provision for impairment of receivables	**(33,511)**	(33,511)
Trade receivables – net	**1,697,470**	1,623,175
Other receivables		
– Due from third parties	**121,205**	91,861
– Due from related parties	**92,871**	104,618
Other receivables	**214,076**	196,479
Bills receivable	**18,771**	34,073
Prepayments	**248,917**	184,894
Dividends receivable	**5,036**	1,550
Total	**2,184,270**	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 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Trade receivables, net		
– Within 90 days	**762,909**	623,899
– Over 90 days and within 180 days	**121,000**	134,241
– Over 180 days and within 360 days	**276,505**	234,892
– Over 360 days and within 720 days	**390,594**	510,644
– Over 720 days	**146,462**	119,499
	1,697,470	1,623,175
Turnover days of trade receivables, net[(1)]	**240**	298

(1) Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2016. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, trade receivables of RMB912.4 million remained unpaid beyond the general credit period but were not impaired, representing 53.8% of the Group's total trade receivables before impairment, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from subsidiaries' related party entities. As at 30 June 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 240 days as at 30 June 2017 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was accelerated in the Interim Period.

Trade and Other Payables

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Bills payable	164,771	96,287
Trade payables		
– Due to related parties	–	–
– Due to third parties	595,065	511,514
Other payables		
– Due to related parties	72,138	97,386
– Due to third parties	66,873	38,579
Staff salaries and welfare payables	32,934	45,174
Advance from customers	52,097	95,367
Interest payables	6,335	21,807
Accrued taxes other than income tax	51,902	36,108
Dividends payable	27,854	1,463
Other liabilities	8,795	7,227
	1,078,764	950,912

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Trade payables, gross		
– Within 90 days	**234,025**	325,061
– Over 90 days and within 180 days	**235,170**	170,397
– Over 180 days and within 360 days	**124,306**	10,400
– Over 360 days and within 720 days	**1,344**	5,458
– Over 720 days	**220**	198
	595,065	511,514
Turnover days of trade payables(1)	**123**	176

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2016. Average trade payables equals balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2016 to 30 June 2017 primarily reflected the increase in purchase in the Interim Period.

BUSINESS REVIEW

In the first half of 2017, the global oil and gas market gradually recovered yet still remained relatively weak as the average crude oil price continued to remain at a significantly lower level compared to historical high points despite the fact that the joint agreement to continue to limit production was reached by the Organization of the Petroleum Exporting Countries ("**OPEC**") and certain non-OPEC oil producing countries. While most of our customers announced plans at beginning of the year to increase capital expenditures reflecting increased optimism towards an overall market recovery, yet they remained cautiously optimistic. Nevertheless, Hilong continued its strategy of international expansions and has secured several milestone contracts overseas. In terms of the financial results, the Company has achieved a healthy rebound during the Interim Period and realized a total revenue of RMB1,256.8 million, indicating an increase of 36.3% over the corresponding period of 2016. The profit attributable to equity owners of the Company amounted to RMB65.4 million for the Interim Period, representing a year-on-year decrease of 2.4%.

Oilfield Services

The oilfield services segment successfully maintained healthy operations in the first half of 2017 and remained as one of the core revenue sources of the Company. During the Interim Period, this segment realized a revenue of RMB374.4 million, representing an increase of 8.8% as compared to that of the same period in 2016. As the core business of the segment, the drilling services maintained a healthy growth rate, and achieved a revenue of RMB370.2 million during the Interim Period, representing an increase of 43.4% as compared to that of the same period in 2016. In the first half of 2017, the global oil and gas market gradually recovered but the recovery pace was slow. As the oil price remained at a relatively low level, the domestic oilfield service industry is generally faced with the predicament of a sharp decline in work volume and decrease in day rate. Nevertheless, capitalizing on its comprehensive and reliable technical abilities, high-end drilling rig fleet and technical service fleet, good QHSE performance and a diversified customer base, Hilong

MANAGEMENT DISCUSSION AND ANALYSIS

still maintained the normal operation of its drilling rig fleet and a relatively strong bargaining power amid the turbulent market. In the first half of 2017, the oilfield services of Hilong have efficiently improved its utilization rate of drilling rigs under the existing contracts. During the first half of 2017, we have also participated in a number of biddings in several countries, including the Middle East, Southeast Asia and Central Asia. In addition, the oilfield technological services business of Hilong has successfully secured a comprehensive integrated technological services contract in Pakistan, which marked a significant breakthrough and once again proved Hilong's technical strength, leading position and customer recognition in drilling services. After two years of incubation, Hilong has established its comprehensive services team in the field of comprehensive integrated technological services, covering a number of areas including drilling, completion fluids, drilling fluids, directional drilling, horizontal drilling, oil and gas testing, debris and sewage treatment and well completion. This business is another key development direction of Hilong's oilfield services in the future and is consistent with the Group's asset-light strategy. In the future, Hilong will continue to increase the capability of its technology team and the investment of resources to vigorously expand the content and scope of its standalone technical services and comprehensive services, and to develop it into a diversified revenue source for the oilfield services segment further promoting Hilong's transformation to a comprehensive integrated oilfield services provider.

Oilfield Equipment Manufacturing and Services

The oilfield equipment manufacturing and services segment achieved a total revenue of RMB645.8 million in the first half of 2017, representing an increase of 60.4% as compared to that of the same period in 2016. The revenue generated from the drill pipe and related products business amounted to RMB495.6 million, representing an increase of 54.5% as compared to that of 2016. The increase of revenue of the drill pipe and related products business was mainly attributed to the rapid growth of market share in the region of former Union of Soviet Socialist Republics ("**USSR**"). As early as in 2015, Hilong had precisely captured the market dynamics, and actively adjusted its strategic focus of its sales regions. Under the depression of global oil and gas industry, Hilong decided to focus its resources on developing drill pipes market in Russia and its surrounding areas. In November 2016, Hilong successfully signed an order for a large quantity of drill pipes and related products with Rosneft Oil Company ("**Rosneft**") and will provide drill pipes and related products for all nine sites of Rosneft in Russia in 2017. In addition, in the first half of 2017, Hilong signed a bid order for a large quantity of drill pipes and related products with Uzbekistan's State Oil and Gas Company in Uzbekistan. In the first half of 2017, the production lines of Hilong's drill pipes have been operating in full capacity to supply products to Russia and its surrounding areas.

The revenue generated from our OCTG coating services business was RMB95.0 million during the reporting period, representing an increase of 37.7% as compared to that in 2016. The increase in coating services revenue was mainly due to the recovery of overall market and the technological advantage of Hilong's coating services and branding effects. The coating business has shown signs of recovery along with the recovery and decline in volatility of global oil price, and the increase in demand in global markets, in particular North America, Russia and China. Since the establishment of the OCTG coating services business, Hilong has maintained its leading position in the area of coating services of drill pipes. Over the recent years, Hilong has continued to be proactive and strived to expand its service scope and revenue sources.

Line Pipe Technology and Services

The line pipe technology and services segment realized a revenue of RMB198.3 million in the first half of 2017, representing an increase of 39.8% as compared to the same period of 2016. In the first half of 2017, Hilong continued to implement the development strategy emphasizing diversification, high-end development and internationalization for this segment. It aims at strengthening Hilong's domestic and international competitiveness in the fields of line pipe coating services, bi-metallic compound pipelines, pipeline inspection and CWC (concrete weighted coating) services through coordinating the development in both domestic and international markets, effectively expanding revenue sources, and minimizing market risks. In the first half of 2017, Hilong succeeded to obtain the order relating to the large-scale anti-corrosive coating and offshore concrete weighted coating services from Zhejiang Petrochemical Co., Limited, which further demonstrated the technological capability and rich experience of Hilong in terms of large-scale coating and offshore concrete weighted coating. During the first half of 2017, our pipeline coating services business won the APA-RCWP project and Proyek Pelaksanaaan Pekerjaan Pengembangan Jaringan Daerah Dumai (PJDD) project in

MANAGEMENT DISCUSSION AND ANALYSIS

Indonesia. In addition, we have won the Pakistani PPL Project, offshore pipeline construction of Dongfang 13-2 gas field project, gas collection pipeline project of Keshen District 2. For CWC services contract, we have won the Mamu depot – Yushan oil transmission pipeline construction. For pipeline inspection, we have won the CNPC Chuandong gas pipeline, CNPC Chongqing gas mine and Tarim Oilfield Kashgar project. All of these have proved the diversification, high-end development and internationalization of our pipeline technology and services segment, and will efficiently enhance the overall profitability of the segment. The joint development of domestic and international markets is also conducive to the expansion of revenue sources and the balance of market risks, enhancing Hilong's international competitiveness in the field of pipeline coating services.

Offshore Engineering Services

In 2016, our offshore engineering services segment faces tough challenges caused by low oil price. In 2017, the offshore engineering services segment achieved a sound growth and successfully obtained several overseas project contracts. During the Interim Period, this segment realized a total revenue of RMB38.2 million, representing an increase of 15.2% as compared to that of the first half of 2016. In the first half of 2017, Hilong successfully secured an important contract from a Thailand-Malaysia joint venture, pursuant to which "Hilong 106", the pipe-laying and derrick vessel, undertook work such as offshore pipeline laying, conduit rack, and the hoisting of upper modules for an offshore gas field development project at an oilfield in Southeast Asia. This was the first offshore engineering services contract Hilong obtained in the regions of Thailand and Malaysia, and laid a solid foundation for undertaking projects in these regions in the future. In the first half of 2017, in order to expand its business scope of the offshore engineering segment and by relying on the design and management capabilities of its professional project management team, Hilong, in addition to its offshore pipeline laying and derrick business, successfully completed the offshore transportation turnkey contract of the Large Steel Cylinder (experimental stage) Project of the New Sanya Airport (三亞新機場大型鋼筒（試驗段）項目). This laid a sound foundation for further securing the transportation and installation contract of the steel cylinder piling of the New Sanya Airport (三亞新機場鋼筒沉樁運輸與安裝合同).

PROSPECTS

For the second half of 2017, Hilong remains confident that it will achieve a rebound in its operations of the overall business. The Company will still face multiple market challenges such as continued depressed level of international oil price and corresponding demand for the Company's products and services. However, the Company believes that the worst market condition has passed and remains optimistic in relation to the future. In the past few years, Hilong has been very successful in quickly implementing business restructuring and venturing into new business areas in order to react to the fast changing market environment. Our unique and diversified business portfolio has helped us to weather the storm in the past couple years and the Company will continue to focus on its core operations while exploring potential business adjustments to accommodate the fast changing market environment, improve profitability and minimize market related risks.

Oilfield Services

Hilong's oilfield services segment will continue to show signs of rebound and growth as the international oil price stabilizes. As the oilfield services segment is directly impacted by the movement of the oil price, the Company believes that the worst market condition has passed in 2016 and the oilfield services maintain the momentum of steady development. For the existing contracts, the Company will maintain active dialogue with the counterparties and improve the operational efficiency of existing projects while ensuring the smooth continuation of contracts. In addition, by leveraging on Hilong's established brand, reputation and track record in the oilfield services, the Company will continue to actively seek new opportunities in new regions such as the Middle East. The Company will also continue to seek expansion opportunities in existing regions in which it operates. Meanwhile, after the success in obtaining the integrated comprehensive services contracts in Pakistan in first half of 2017, the Company will continue to expand and develop its comprehensive services and improve the capability of providing integrated comprehensive services. The comprehensive services business enables the Company to pursue an asset-light business model which is in-line with the overall strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

Oilfield Equipment Manufacturing and Services

Oilfield equipment manufacturing and services has always been the core business of the Company. The brand recognition and product quality of Hilong's drill pipes and OCTG coating is widely recognized both in China and globally. In line with the overall corporate strategy, oilfield equipment manufacturing and services expanded successfully overseas and the year 2017 will be a year that the Company achieves great success in the former USSR regions. Hilong secured large orders from companies such as Rosneft and Eriell Group International Limited, and became the sole supplier of drill pipes in its joint project with Uzbekistan's State Oil and Gas Company in Uzbekistan. In 2017, Hilong has secured several contracts that will ensure the full utilization of its manufacturing capacity. Going forward, with the increasing stabilization of the crude oil price as well as the solid foundation that Hilong has built in both domestic and overseas market, the prospects of this segment will continue to rebound.

In addition, the Company will continue its effort in promoting the sales of non-API drill pipe products and related services with high value added in both China and overseas markets in order to enhance profitability of the segment. As the oil price stabilizes gradually, the drill pipe and related products business, as one of Hilong's traditional core businesses, is also expected to return to the track of steady growth. In recent years, Hilong has deployed new production capacity or upgraded the existing production facility for its OCTG coating services business in key strategic locations both domestically and internationally in a planned manner. At present, the Company's major OCTG coating service plants are fully equipped with the capacities of applying coatings for the entire series of OCTG pipes and a variety of new types of pipes. This remarkably broadened the business scope of Hilong's OCTG coating services, effectively improved production efficiency, and fully prepared Hilong's technology and production capacity in the market in order to seize the growing demand for high-end coatings applied onto tubings and casings as well as other new types of pipes. Hilong will continue to focus on market development and actively nurture new market demands, so as to realize the optimization of production capacity and achieve steady growth during the new development era.

Line Pipe Technology and Services

Hilong's line pipe technology and services segment will continue to adopt a development strategy of diversification, high-end orientation and internationalization. Looking forward, the Company will continue to focus on its core service which is line pipe coating while putting in more effort on developing innovative products and services such as CWC and line pipe inspection services. Hilong has provided coating services for a number of domestic as well as international pipeline construction projects in recent years, accumulated extensive experiences and established good reputation among its customers with its qualification and capability widely accepted. While continuing to actively participate in major domestic projects and solidify its domestic market position, Hilong will continue to increase its efforts to explore overseas markets, particularly to seek opportunities to participate in major international line pipe construction projects for its new high-end businesses. Hilong has secured an important CWC contract in first half of 2017 and the Company will keep up with the momentum. By leveraging its offshore engineering business, Hilong will continue to spend time and effort to develop the market for high-end product such as CWC going forward. The Company will also accelerate the development of its pipeline inspection business to further explore the market and strengthen the market position. This will enable Hilong to extend and improve the industry chain for line pipe services, achieving the goal of growing into a one-stop line pipe solution provider as soon as possible.

MANAGEMENT DISCUSSION AND ANALYSIS

Offshore Engineering Services

We acquired the offshore pipe-laying and derrick vessel (i.e. Hilong 106) and started the offshore engineering services segment in late 2014. Since then, we have successfully secured and completed a number of offshore platform construction and subsea pipelaying projects in both domestic and overseas market. Since 2016, we have started to expand our offshore engineering services segment to overseas market and have achieved satisfactory results in the Southeast Asia market, proving our design and operation capability. In 2016, the segment did not achieve great results due to the weakening of the offshore engineering industry resulting from weak crude oil price. In first half of 2017, we have secured a very important contract in the Thai-Malaysia Joint Development Area, demonstrating that our effort to invest in this segment is starting to bear fruits. Going forward, Hilong has secured a number of projects from the fourth quarter of 2017 through to the third quarter of 2018. This has reflected Hilong's offshore brand recognition and capability. Hilong will continue to broaden its customers base as well as types of projects (oil and gas related as well as civil projects) in both domestic and overseas market.

We strongly believe that, with our perseverance and hard work, Hilong will continue to generate stable returns to shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Net cash used in operating activities	**(7,305)**	(99,681)
Net cash used in investing activities	**(152,178)**	(154,870)
Net cash from/(used in) financing activities	**248,907**	(82,830)
Net increase/(decrease) in cash and cash equivalents	**89,424**	(337,381)
Exchange losses on cash and cash equivalents	**(10,515)**	(9,858)
Cash and cash equivalents at beginning of the period	**657,422**	821,364
Cash and cash equivalents at end of the period	**736,331**	474,125

As at 30 June 2017, cash and cash equivalents were mainly denominated in RMB, USD, Rubles, Naira, Rupee and Canadian dollars.

Operating Activities

Net cash used in operating activities for the Interim Period was RMB7.3 million, representing cash generated from operation of RMB139.8 million, offset by the interest payment of RMB127.5 million and income tax payment of RMB19.6 million.

Net cash used in operating activities for the six months ended 30 June 2016 was RMB99.7 million, representing cash used in operations of RMB2.6 million, interest payment of RMB78.5 million and income tax payment of RMB18.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Investing Activities

Net cash used in investing activities for the Interim Period was RMB152.2 million, primarily reflecting payment of RMB93.8 million for purchases of property, plant and equipment, and the increase in deposit pledged to secure a line of credit with bank of RMB58.7 million.

Net cash used in investing activities for the six months ended 30 June 2016 was RMB154.9 million, primarily reflecting payment of RMB156.7 million for purchases of property, plant and equipment.

Financing Activities

Net cash generated from financing activities for the Interim Period was RMB248.9 million, primarily reflecting proceeds of RMB2,330.0 million from borrowings, offset by repayment of borrowings of RMB2,081.2 million.

Net cash used in financing activities for the six months ended 30 June 2016 was RMB82.8 million, primarily reflecting proceeds of RMB816.9 million from borrowings, offset by repayment of borrowings of RMB899.7 million.

CAPITAL EXPENDITURES

Capital expenditures were RMB131.0 million and RMB107.6 million for the six months ended 30 June 2016 and the Interim Period respectively. The decrease in capital expenditures for the Interim Period was mainly due to the Company's implementation of capital expenditures saving policy and achieved favourable results in the Interim Period.

INDEBTEDNESS

As at 30 June 2017, the outstanding indebtedness of RMB2,904.8 million was mainly denominated in USD, RMB and HKD. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Non-current		
Bank borrowings – unsecured	**1,956,402**	1,703,570
Bank borrowings – secured	**252,086**	–
Less: Current portion of non-current borrowings	**(324,180)**	(386,159)
	1,884,308	1,317,411
Current		
Bank borrowings – secured	**247,088**	512,223
Bank borrowings – unsecured	**449,251**	532,296
Current portion of non-current borrowings	**324,180**	386,159
	1,020,519	1,430,678
	2,904,827	2,748,089

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, bank borrowings of RMB2,378.7 million were obtained at fixed rate (31 December 2016: RMB788.7 million).

The bank borrowings of RMB227.1 million were secured by certain bank deposits of the Group, with a carrying amount of RMB161.7 million as at 30 June 2017.

As at 31 December 2016, bank borrowings of RMB11.2 million were secured by commercial acceptance bills of the Group. As at 30 June 2017, the Group has fully repaid such borrowings.

As at 30 June 2017, Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., a subsidiary of the Group, has borrowed a bank borrowing of RMB20 million (31 December 2016: RMB20 million), which was secured by the non-controlling interest of the Group.

GEARING RATIO

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

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

The gearing ratios as at 30 June 2017 and 31 December 2016 are as follows:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Total borrowings	**2,904,827**	2,748,089
Less: Cash and cash equivalents	**(736,331)**	(657,422)
Net debt	**2,168,496**	2,090,667
Total equity	**3,493,604**	3,491,878
Total capital	**5,662,100**	5,582,545
Gearing ratio	**38.30%**	37.45%

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 13.5% appreciation of RMB against the USD from 21 July 2005 to 30 June 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 40.5% and 37.7% of the total revenue of the Company for the six months ended 30 June 2016 and the Interim Period, respectively.

STAFF AND REMUNERATION POLICY

As at 30 June 2017, the total number of full-time employees employed by the Group was 2,804 (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 30 June 2017:

On-site workers	1,669
Administrative	496
Research and development	137
Engineering and technical support	320
Company management	42
Sales, marketing and after-sales services	140
	2,804

Employee costs excluding the Directors' remuneration totalled RMB210,915,913 for the Interim Period.

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

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

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

EVENTS AFTER THE END OF THE INTERIM PERIOD

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2017

	Note	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**3,054,498**	3,139,744
Lease prepayments	*7*	**87,499**	88,567
Intangible assets	*7*	**170,816**	173,581
Investments accounted for using equity method		**58,411**	57,615
Deferred income tax assets		**150,437**	143,198
Other long-term assets		**16,151**	4,313
		3,537,812	3,607,018
Current assets			
Inventories		**864,026**	798,759
Trade and other receivables	*8*	**2,184,270**	2,040,171
Current income tax recoverable		**32,164**	39,768
Restricted cash		**234,495**	155,036
Cash and cash equivalents		**736,331**	657,422
		4,051,286	3,691,156
Total assets		**7,589,098**	7,298,174
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	*9*	**141,976**	141,976
Other reserves	*10*	**1,134,730**	1,133,443
Currency translation differences		**(30,484)**	15,277
Retained earnings		**2,014,444**	1,963,797
		3,260,666	3,254,493
Non-controlling interests		**232,938**	237,385
Total equity		**3,493,604**	3,491,878

The notes on page 22 to 47 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2017

	Note	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	**1,884,308**	1,317,411
Deferred income tax liabilities		**42,461**	44,113
Deferred revenue		**25,860**	35,822
		1,952,629	1,397,346
Current liabilities			
Trade and other payables	*12*	**1,078,764**	950,912
Current income tax liabilities		**36,315**	25,416
Borrowings	*11*	**1,020,519**	1,430,678
Derivative financial instruments		**–**	1,097
Deferred revenue		**7,267**	847
		2,142,865	2,408,950
Total liabilities		**4,095,494**	3,806,296
Total equity and liabilities		**7,589,098**	7,298,174

The notes on page 22 to 47 are an integral part of this condensed consolidated interim financial information.

Approved by the Board of Directors on 25 August 2017.

Zhang Jun
Director

Wang Tao (汪濤)
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	(Unaudited) Six months ended 30 June 2017 RMB'000	2016 RMB'000
Revenue	6(a)	**1,256,777**	921,810
Cost of sales		**(815,495)**	(597,928)
Gross profit		**441,282**	323,882
Selling and marketing expenses		**(75,228)**	(50,717)
Administrative expenses		**(200,253)**	(147,447)
Other (losses)/gain – net	13	**(31,770)**	101,961
Operating profit		**134,031**	227,679
Finance income	14	**58,750**	3,020
Finance costs	14	**(94,503)**	(134,411)
Finance costs – net		**(35,753)**	(131,391)
Share of profit/(losses) of investments accounted for using equity method		**3,307**	(312)
Profit before income tax		**101,585**	95,976
Income tax expense	15	**(28,994)**	(26,493)
Profit for the period		**72,591**	69,483
Profit attributable to:			
Equity owners of the Company		**65,370**	66,988
Non-controlling interests		**7,221**	2,495
		72,591	69,483
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	16	**0.0385**	0.0395
– Diluted	16	**0.0385**	0.0395

The notes on page 22 to 47 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Profit for the period	**72,591**	69,483
Other comprehensive (losses)/income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(45,761)**	45,105
Total comprehensive income for the period	**26,830**	114,588
Attributable to:		
Equity owners of the Company	**19,609**	112,093
Non-controlling interests	**7,221**	2,495
	26,830	114,588

The notes on page 22 to 47 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		(Unaudited)						
		Capital and reserves attributable to equity owners						
	Note	Ordinary shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2016		141,976	1,127,528	1,869,990	(117,445)	3,022,049	234,087	3,256,136
Comprehensive income								
Profit for the period		–	–	66,988	–	66,988	2,495	69,483
Other comprehensive income								
Currency translation differences		–	–	–	45,105	45,105	–	45,105
Total comprehensive income for the period		–	–	66,988	45,105	112,093	2,495	114,588
Transactions with owners								
Pre-IPO share option plan	*10(a)*	–	140	–	–	140	–	140
2013 Share Option Scheme	*10(a)*	–	1,823	–	–	1,823	–	1,823
Dividends in respect of 2015	*17*	–	–	(28,769)	–	(28,769)	–	(28,769)
Total transaction with owners		–	1,963	(28,769)	–	(26,806)	–	(26,806)
As at 30 June 2016		141,976	1,129,491	1,908,209	(72,340)	3,107,336	236,582	3,343,918
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 period		**–**	**–**	**65,370**	**–**	**65,370**	**7,221**	**72,591**
Other comprehensive income								
Currency translation differences		**–**	**–**	**–**	**(45,761)**	**(45,761)**	**–**	**(45,761)**
Total comprehensive income/(losses) for the period		**–**	**–**	**65,370**	**(45,761)**	**19,609**	**7,221**	**26,830**
Transactions with owners								
2013 Share Option Scheme	*10(a)*	**–**	**1,287**	**–**	**–**	**1,287**	**–**	**1,287**
Dividends in respect of 2016	*17*	**–**	**–**	**(14,723)**	**–**	**(14,723)**	**–**	**(14,723)**
Profit distribution to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(11,668)**	**(11,668)**
Total transaction with owners		**–**	**1,287**	**(14,723)**	**–**	**(13,436)**	**(11,668)**	**(25,104)**
As at 30 June 2017		**141,976**	**1,134,730**	**2,014,444**	**(30,484)**	**3,260,666**	**232,938**	**3,493,604**

The notes on page 22 to 47 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	(Unaudited) Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Cash flow from operating activities		
Cash flow generated from/(used in) operations	139,829	(2,563)
Interest paid	(127,537)	(78,531)
Income tax paid	(19,597)	(18,587)
Net cash used in operating activities	(7,305)	(99,681)
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	1,295	–
Purchases of property, plant and equipment	(93,817)	(156,666)
Purchases of intangible assets	(978)	–
Net cash outflow arising from security deposit for bank borrowings	(58,678)	–
Dividends received	–	1,796
Net cash used in investing activities	(152,178)	(154,870)
Cash flow from financing activities		
Proceeds from borrowings	2,330,020	816,868
Repayments of borrowings	(2,081,163)	(899,698)
Net cash inflow arising from financial instruments	50	–
Net cash generated from/(used in) financing activities	248,907	(82,830)
Net increase/(decrease) in cash and cash equivalents	89,424	(337,381)
Exchange losses on cash and cash equivalents	(10,515)	(9,858)
Cash and cash equivalents at beginning of the period	657,422	821,364
Cash and cash equivalents at end of the period	736,331	474,125

The notes on page 22 to 47 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1 GENERAL INFORMATION OF THE GROUP

Hilong Holding Limited (the "**Company**") was incorporated in the Cayman Islands on 15 October 2008 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

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

The condensed consolidated interim financial information was presented in Renminbi thousand (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 25 August 2017.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

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

(a) Amended standards adopted by the Group:

The following amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2017:

- Amendments to HKAS 12, "Income taxes".
- Amendments to HKAS 7, "Statement of cash flows".
- Amendments to HKFRS 12, "Disclosure of interest in other entities".

The adoption of these amended standards and interpretations has not had any significant effect on the accounting policies or result and financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

3 ACCOUNTING POLICIES (continued)

(b) New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:

- HKFRS 15 "Revenue from contracts with customers", effective for the accounting period beginning on or after 1 January 2018.

- HKFRS 9 "Financial Instruments", effective for the accounting period beginning on or after 1 January 2018.

- Amendment to HKAS 28, 'Investments in associates and joint ventures', effective for the accounting period beginning on or after 1 January 2018.

- HK (IFRIC) 22, 'Foreign Currency Transactions and Advance Consideration', effective for the accounting period beginning on or after 1 January 2018.

- HKFRS 16 "Leases", effective for the accounting period beginning on or after 1 January 2019.

Management assessed the impact of the above standards. None of these is expected to have a significant effect on the condensed interim financial information of the Group.

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to consolidated financial statements for the year ended 31 December 2016.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management department or in any risk management policies since year end.

5.2 Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 30 June 2017					
Borrowings and interest payables	1,203,674	214,339	1,961,328	–	3,379,341
Trade and other payables (excluding advance from customers, interest payables, staff salaries and welfare payables and other tax liabilities)	935,496	–	–	–	935,496
	2,139,170	214,339	1,961,328	–	4,314,837

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

	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 2016					
Borrowings and interest payables	1,555,172	1,345,491	427	54	2,901,144
Trade and other payables (excluding advance 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

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 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).

The following table presents the Group's financial liabilities that are measured at fair value as at 30 June 2017 and 31 December 2016:

As at 30 June 2017	**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	–	–	–	–

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 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 in level 2 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.

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

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

- Cash and cash equivalents
- Restricted cash
- Trade and other receivables
- Trade and other payables
- Borrowings

During the six months ended 30 June 2017, there were no reclassifications of financial assets (six months ended 30 June 2016: Nil).

6 SEGMENT INFORMATION

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

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

The corporate overheads are not considered as the business segment expenses during the six months ended 30 June 2017 and 2016 as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6 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 condensed consolidated interim financial information. These liabilities are allocated based on the operations of segment.

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 anticorrosive and anti-friction purpose;
- Oilfield services provision, including the provision of well drilling services, OCTG trading and related services to oil and gas producers; and
- Offshore engineering services provision, including the provision of offshore engineering services and offshore design services.

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2017 and 2016 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Oilfield equipment manufacturing and services	**645,827**	402,552
Line pipe technology and services	**198,334**	141,839
Oilfield services	**374,375**	344,231
Offshore engineering services	**38,241**	33,188
	1,256,777	921,810

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6 SEGMENT INFORMATION (continued)

(b) Segment information

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

	Six months ended 30 June 2017 (Unaudited)				
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	664,096	216,411	374,375	38,241	1,293,123
Inter-segment sales	(18,269)	(18,077)	–	–	(36,346)
Revenue from external customers	645,827	198,334	374,375	38,241	1,256,777
Results					
Segment gross profit	201,860	54,340	152,998	32,084	441,282
Segment profit/(losses)	68,556	14,749	84,260	(1,250)	166,315
Corporate overheads					(32,284)
Operating profit					134,031
Finance income					58,750
Finance costs					(94,503)
Share of profit of investments accounted for using equity method					3,307
Profit before income tax					101,585
Other information					
Depreciation of property, plant and equipment	43,617	8,831	52,484	25,571	130,503
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	345	94	30	461	930
Capital expenditure	40,741	1,277	21,686	43,910	107,614

	As at 30 June 2017 (Unaudited)				
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	3,253,423	801,602	2,134,750	1,340,912	7,530,687
Investments accounted for using equity method					58,411
Total assets					7,589,098
Total liabilities	3,422,924	318,068	310,433	44,069	4,095,494

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2016 is as follows:

	Six months ended 30 June 2016 (Unaudited)				
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	426,292	170,776	344,231	33,188	974,487
Inter-segment sales	(23,740)	(28,937)	–	–	(52,677)
Revenue from external customers	402,552	141,839	344,231	33,188	921,810
Results					
Segment gross profit/(losses)	153,340	36,776	143,263	(9,497)	323,882
Segment profit/(losses)	165,123	7,472	90,690	(4,158)	259,127
Corporate overheads					(31,448)
Operating profit					227,679
Finance income					3,020
Finance costs					(134,411)
Share of losses of investments accounted for using equity method					(312)
Profit before income tax					95,976
Other information					
Depreciation of property, plant and equipment	31,897	6,962	46,930	27,518	113,307
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	205	94	–	462	761
Capital expenditure	43,773	210	67,422	19,561	130,966

	As at 30 June 2016 (Unaudited)				
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	2,772,189	606,156	2,227,354	1,286,225	6,891,924
Investments accounted for using equity method					58,909
Total assets					6,950,833
Total liabilities	3,047,343	204,688	325,811	29,073	3,606,915

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6 SEGMENT INFORMATION (continued)

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Russia, Central Asia and East Europe	**498,221**	268,876
The PRC	**302,166**	299,405
South Asia	**183,247**	98,367
Africa	**129,380**	80,183
North and South America	**105,896**	153,842
Middle East	**36,853**	19,938
Others	**1,014**	1,199
	1,256,777	921,810

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June 2017 RMB'000	31 December 2016 RMB'000
The PRC	**2,025,904**	2,056,905
North and South America	**444,773**	475,879
Africa	**288,429**	316,258
South Asia	**228,507**	247,784
Russia, Central Asia and East Europe	**212,679**	173,235
Middle East	**112,521**	131,831
	3,312,813	3,401,892

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
The PRC	**78,022**	26,911
Russia, Central Asia and East Europe	**37,975**	57,331
South Asia	**5,356**	70,540
North and South America	**970**	(26,151)
Africa	**(2,051)**	1,486
Middle East	**(12,658)**	849
	107,614	130,966

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

	(Unaudited)		
	Property, plant and equipment RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000
As at 1 January 2016			
Cost	3,839,196	105,680	163,213
Accumulated depreciation	(801,407)	(14,986)	(4,761)
Impairment provision	–	–	(2,097)
Net book amount	3,037,789	90,694	156,355
Six months ended 30 June 2016			
Opening net book amount	3,037,789	90,694	156,355
Additions	130,966	–	–
Disposals	(509)	–	–
Depreciation	(113,307)	(1,068)	(761)
Currency translation differences	74,653	–	7,615
Closing net book amount	3,129,592	89,626	163,209
As at 30 June 2016			
Cost	4,058,636	105,680	170,828
Accumulated depreciation	(929,044)	(16,054)	(5,522)
Impairment provision	–	–	(2,097)
Net book amount	3,129,592	89,626	163,209

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

7 PROPERTY, PLANT AND EQUIPMENT, LEASE PREPAYMENTS AND INTANGIBLE ASSETS (continued)

		(Unaudited)	
	Property, plant and equipment RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000
As at 1 January 2017			
Cost	4,140,002	105,680	183,104
Accumulated depreciation	(1,000,258)	(17,113)	(7,426)
Impairment provision	–	–	(2,097)
Net book amount	3,139,744	88,567	173,581
Six months ended 30 June 2017			
Opening net book amount	3,139,744	88,567	173,581
Additions	106,636	–	978
Disposals	(1,683)	–	–
Other deductions *(a)*	(2,426)	–	–
Depreciation	(130,503)	(1,068)	(930)
Currency translation differences	(57,270)	–	(2,813)
Closing net book amount	3,054,498	87,499	170,816
As at 30 June 2017			
Cost	4,166,587	105,680	181,215
Accumulated depreciation	(1,112,089)	(18,181)	(8,302)
Impairment provision	–	–	(2,097)
Net book amount	3,054,498	87,499	170,816

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Bills receivable	**18,771**	34,073
Trade receivables *(a)*		
– Due from third parties	**1,714,478**	1,643,817
– Due from related parties *(Note 18(c))*	**16,503**	12,869
Trade receivables – gross	**1,730,981**	1,656,686
Less: Provision for impairment of receivables	**(33,511)**	(33,511)
Trade receivables – net	**1,697,470**	1,623,175
Dividends receivable *(Note 18(c))*	**5,036**	1,550
Other receivables *(Note 18(c))*	**214,076**	196,479
Prepayments	**248,917**	184,894
Trade and other receivables – net	**2,184,270**	2,040,171

As at 30 June 2017 and 31 December 2016, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

(a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at 30 June 2017 and 31 December 2016 was as follows:

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Trade receivables, gross		
– Within 90 days	**762,909**	623,899
– Over 90 days and within 180 days	**121,000**	134,241
– Over 180 days and within 360 days	**276,505**	234,892
– Over 360 days and within 720 days	**390,594**	510,644
– Over 720 days	**179,973**	153,010
	1,730,981	1,656,686

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

9 ORDINARY SHARES

	(Unaudited)		
	Number of ordinary shares	**Nominal value of ordinary shares** (In HKD)	**Equivalent nominal value of ordinary shares** (In RMB)
As at 1 January 2016 and 30 June 2016	1,696,438,600	169,643,860	141,975,506
As at 1 January 2017 and 30 June 2017	1,696,438,600	169,643,860	141,975,506

10 OTHER RESERVES

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Statutory reserve	**100,653**	100,653
Merger reserve	**(141,929)**	(141,929)
Share options reserve *(a)*	**46,609**	45,322
Share premium	**1,172,248**	1,172,248
Capital redemption reserve	**702**	702
Capital reserve	**(43,553)**	(43,553)
	1,134,730	1,133,443

(a) Share options reserve

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) Pre-IPO share option plan

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

	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2017	2016
Beginning of the period	2.60	**29,174,300**	30,743,900
Forfeited	2.60	**–**	(1,569,600)
Current year change	2.60	**390,000**	–
End of the period	2.60	**29,564,300**	29,174,300

The share options outstanding (expiry date: 31 December 2020) as at 30 June 2017 and 2016 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		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
	2.60	**29,564,300**	29,174,300

All of the options were exercisable as at 30 June 2017 and 2016. No options were exercised during the six months ended 30 June 2017 and 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

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

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

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

The significant inputs into the model were as follows:

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

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2016 for share options granted under Pre-IPO share option plan amounted to RMB140,000, with a corresponding amount credited in share options reserve.

(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 shares (unaudited) Six months ended 30 June	
		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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2017 and 2016 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June 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
	5.93	**17,221,200**	17,221,200

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

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

The significant inputs into the model were as follows:

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

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2017 for share options granted under 2013 Share Option Scheme amounted to RMB1,287,000 (six months ended 30 June 2016: RMB1,823,000), with a corresponding amount credited in share options reserve.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

11 BORROWINGS

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Non-current		
Bank borrowings – secured *(a)*	**252,086**	–
Bank borrowings – unsecured *(b)*	**1,956,402**	1,703,570
Less: Current portion of non-current borrowings *(b)*	**(324,180)**	(386,159)
	1,884,308	1,317,411
Current		
Bank borrowings – secured *(a)*	**247,088**	512,223
Bank borrowings – unsecured *(b)*	**449,251**	532,296
Current portion of non-current borrowings *(b)*	**324,180**	386,159
	1,020,519	1,430,678
	2,904,827	2,748,089

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Beginning of the period	**2,748,089**	2,676,912
Additions of borrowings – net	**2,281,847**	805,707
Repayments of borrowings	**(2,081,163)**	(899,698)
Amortization using the effective interest method	**22,480**	13,598
Exchange difference	**(66,426)**	47,184
End of the period	**2,904,827**	2,643,703

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

11 BORROWINGS (continued)

(a) Secured bank borrowings

The bank borrowings of RMB227,088,000 (31 December 2016: RMB168,867,000) were secured by certain bank deposits of the Group, with a carrying amount of RMB161,722,000 as at 30 June 2017 (31 December 2016: RMB103,044,000).

As at 30 June 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. As at 30 June 2017, RMB260,000,000 were drawn down. These loan principals were secured by the Controlling Shareholder and his spouse. The principals will be fully repayable from 2017 to 2020.

In September 2016, the Company entered into USD loan agreements with a financial institution amounting to USD45,000,000. These loan principals were secured by the Controlling Shareholder of the Group and Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., one of the related parties of the Group. As at 30 June 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 30 June 2017, the Group had fully repaid the loan.

(b) 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 30 June 2017, the Group has fully drawn down the aforementioned facility, out of which USD11,100,000 and HKD30,225,000 have been repaid during this period. The remaining principals will be fully repayable in 2017 and 2018 respectively.

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 will mature on 22 June 2020. The Notes were listed on The Stock Exchange of Hong Kong Limited on 23 June 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

12 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Bills payable	**164,771**	96,287
Trade payables:		
– Due to third parties	**595,065**	511,514
Other payables:	**139,011**	135,965
– Due to related parties *(Note 18(c))*	**72,138**	97,386
– Due to third parties	**66,873**	38,579
Advance from customers	**52,097**	95,367
Staff salaries and welfare payables	**32,934**	45,174
Interest payables	**6,335**	21,807
Accrued taxes other than income tax	**51,902**	36,108
Dividends payable	**27,854**	1,463
Other liabilities	**8,795**	7,227
	1,078,764	950,912

As at 30 June 2017 and 31 December 2016, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

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

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Trade payables, gross		
– Within 90 days	**234,025**	325,061
– Over 90 days and within 180 days	**235,170**	170,397
– Over 180 days and within 360 days	**124,306**	10,400
– Over 360 days and within 720 days	**1,344**	5,458
– Over 720 days	**220**	198
	595,065	511,514

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

13 OTHER (LOSSES)/GAIN – NET

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Exchange (losses)/gain – net	**(37,481)**	93,580
Government grants	**5,538**	7,219
Losses on disposal of property, plant and equipment – net	**(140)**	(16)
Others	**313**	1,178
	(31,770)	101,961

14 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Finance income:		
– Exchange gain	**46,596**	–
– Interest income derived from bank deposits	**11,007**	3,020
– Fair value gains on foreign exchange forward contracts	**1,147**	–
	58,750	3,020
Finance costs:		
– Interest expense on bank borrowings	**(94,503)**	(70,020)
– Exchange losses	**–**	(57,040)
– Fair value losses on foreign exchange forward contracts	**–**	(6,768)
– Fair value losses on interest rate swaps	**–**	(583)
	(94,503)	(134,411)
Finance costs – net	**(35,753)**	(131,391)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

15 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax	**37,800**	22,523
Deferred income tax	**(8,806)**	3,970
Income tax expense	**28,994**	26,493

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the six months ended 30 June 2017 and 2016.

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 34% prevailing in the places in which the Group operated for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 15% to 34%).

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

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

Pursuant to the PRC Corporate Income Tax Law ("**CIT Law**"), a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of their earnings generated from 1 January 2008.

Pursuant to Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2013 to 2015. Hilong Energy is in the process of renewal of the qualification during this period.

As at 30 June 2017, the permanently reinvested unremitted earnings totalled RMB1,137,380,000 (31 December 2016: RMB1,144,460,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

16 EARNINGS PER SHARE

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

	(Unaudited) Six months ended 30 June	
	2017	2016
Profit attributable to equity owners of the Company (RMB'000)	**65,370**	66,988
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,439**	1,696,439
Basic earnings per share (RMB per share)	**0.0385**	0.0395

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

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

As at 30 June 2017, there were 29,564,300 (30 June 2016: 29,174,300) share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2017 and 2016, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 30 June 2017, there were 17,221,200 (30 June 2016: 17,221,200) share options outstanding related to 2013 Share Option Scheme. For the six months ended 30 June 2017 and 2016, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

17 DIVIDENDS

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

The dividend in respect of 2015 of HKD0.0200 (equivalent to RMB0.0170) per share, amounting to a total dividend of HKD33,929,000 (equivalent to RMB28,769,000), 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 six months ended 30 June 2016.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2017 and 2016, and balances arising from related party transactions as at 30 June 2017 and 31 December 2016.

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hailong Oil Investments Co., Ltd.

(iv) Associates of the Group

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

(v) Jointly controlled entities of the Group

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

(b) Transactions with related parties

Save as disclosed elsewhere in this condensed consolidated interim financial information, during the six months ended 30 June 2017 and 2016, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**27,822**	55,742
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**603**	366
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**–**	446
	28,425	56,554
Rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**4,745**	3,097

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**15,787**	11,037
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**716**	1,832
	16,503	12,869
Dividends receivable:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**3,486**	–
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,550**	1,550
	5,036	1,550
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**58,205**	72,915
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**26,041**	29,385
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**8,625**	2,318
	92,871	104,618
Other payables due to:		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.	**44,688**	79,148
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**25,107**	17,300
Beijing Huashi Hailong Oil Investments Co., Ltd.	**1,405**	–
Mr. Zhang Jun	**938**	938
	72,138	97,386
Prepayment to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**–**	1,018

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

19 COMMITMENTS

(a) Capital commitments

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Property, plant and equipment	–	10,617

(b) Operating lease commitments

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

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

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
No later than 1 year	29,468	11,878
Later than 1 year and no later than 3 years	53,332	23,911
Later than 3 years	19,832	8,488
	102,632	44,277

OTHER INFORMATION

CHANGE IN DIRECTORS' INFORMATION

There were changes in information of directors, which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), since the date of the 2016 Annual Report of the Company as follows:

1. The director's fee for each of Ms. Zhang Shuman and Mr. Li Huaiqi, non-executive directors, and Mr. Wang Tao (王濤) and Mr. Liu Haisheng, independent non-executive directors, under the respective letters of appointment was increased to HK$240,000 per annum with retrospective effect from 2 December 2016.

2. Ms. Zhang Shuman, non-executive director, ceased to act as the Chief Strategy Officer of the Company, with effect from 24 March 2017.

3. Mr. Wong Man Chung Francis, independent non-executive director, is also an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd. and China New Higher Education Group Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), from 6 April 2017 and 19 April 2017 respectively.

DISCLOSURE OF INTERESTS

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

As at 30 June 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 Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	880,346,000[1]	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800[2]	
	Beneficial owner	760,000	
		993,406,800	58.558%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000[3]	
	Beneficial owner	492,000	
		24,792,000	1.461%
Mr. Yuan Pengbin	Beneficial owner	1,151,600	0.068%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Mr. Yang Qingli	Interest of spouse	77,000[4]	0.005%

OTHER INFORMATION

Notes:

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

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

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

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

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

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

OTHER INFORMATION

(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' interest or short positions in the securities of the Company

As at 30 June 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	880,346,000[1]	51.89%
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	994,006,800[3]	58.59%
Wellington Management Group LLP	Interest of controlled corporation	132,697,705[4]	7.82%

Notes:

(1) 880,346,000 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) 108,582,000 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**"). 24,115,705 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.

OTHER INFORMATION

PRE-IPO SHARE OPTION SCHEME

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

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

	Number of share options								
Category/ name of grantees	Outstanding as at 1 January 2017	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2017	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Directors									
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
In aggregate	5,500,000	–	–	–	5,500,000				
Employees of the Group other than Directors									
In aggregate	23,674,300	–	–	–	24,064,300*	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Total	29,174,300	–	–	–	29,564,300*				

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

OTHER INFORMATION

POST-IPO SHARE OPTION SCHEME

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

	Number of share options									
Category/ name of grantee	Outstanding as at 1 January 2017	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 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 February 2014	5 February 2015 – 4 February 2024

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 USD74,000,000; and (ii) a Hong Kong dollar term loan facility in the amount of HKD201,500,000, 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, out of which USD11,100,000 and HKD30,225,000 had been repaid during the first half of 2017. The remaining principals are fully repayable in the second half of 2017 and 2018, respectively.

OTHER INFORMATION

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 USD139,777,700; and (ii) a Hong Kong dollar term loan facility in the amount of HKD380,610,825, 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 30 June 2017, the Group had fully repaid the aforementioned facility.

CORPORATE GOVERNANCE CODE

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

(a) in respect of code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. Zhang Jun. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company; and

(b) in respect of code provision E.1.2 of the Corporate Governance 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.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF INTERIM REPORT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the Interim Period.

APPRECIATION

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

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

25 August 2017