海隆控股有限公司*

# Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1623

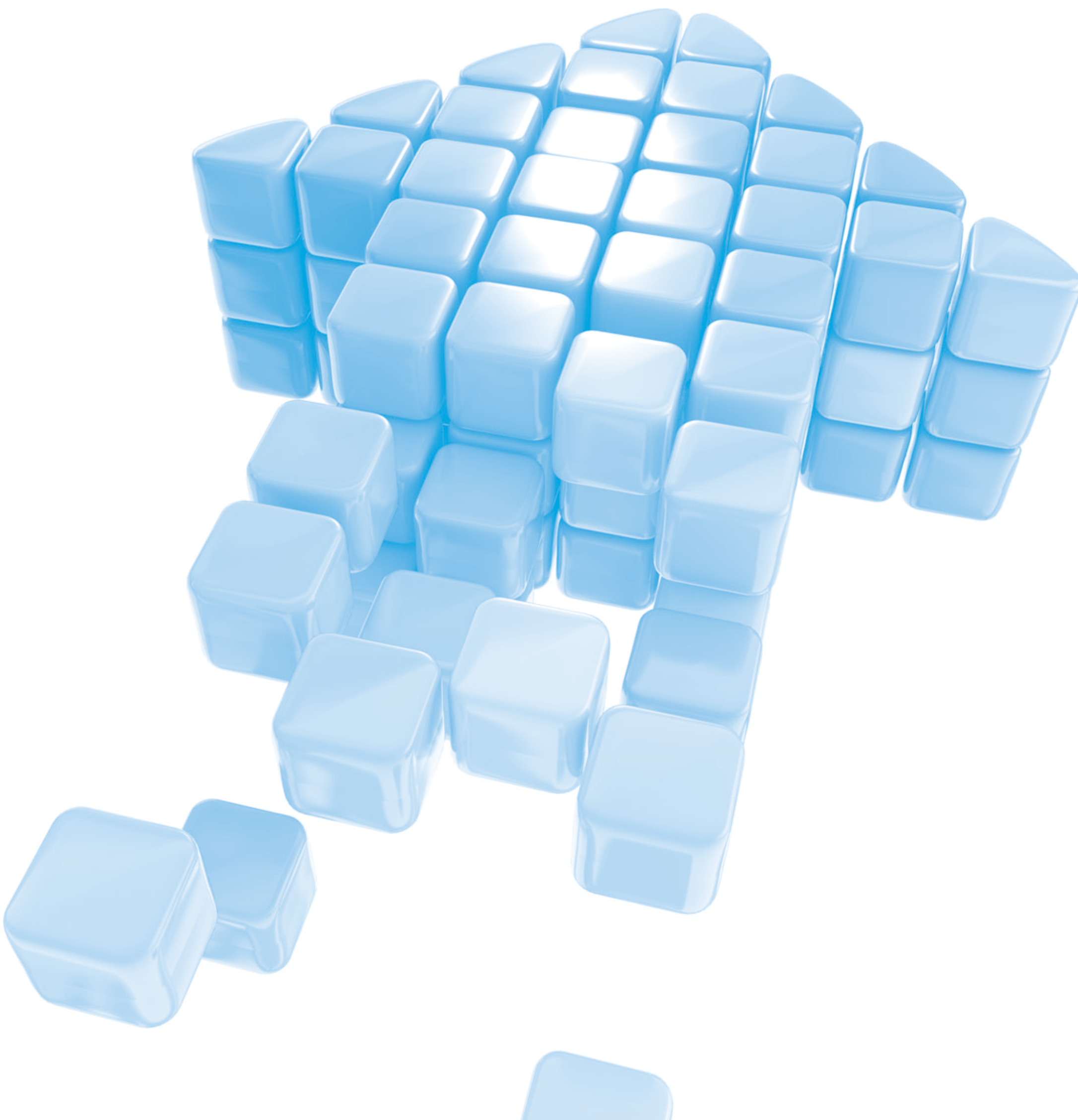
* For identification purpose only

# ANNUAL REPORT 2016

PURSUE GROWTH IN A STEADY PACE

# CONTENTS





# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Hilong Holding Limited ("Hilong", "we" or the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 to our shareholders.

## RESULTS

In 2016, the international oil price started to recover slowly after rebounding from the bottom. Overall, the Group maintained relatively stable operations during 2016, realizing a revenue of RMB1,929 million for the year, representing a decrease of 22.4% as compared to 2015. The oilfield equipment manufacturing and services segment attained remarkable results, realizing a total revenue of RMB781 million in 2016, representing an increase of 15.5% as compared to that in 2015. The oilfield services segment successfully maintained healthy operations as a whole, realizing a revenue of RMB709 million, representing a decrease of 23.2% as compared to that in 2015. The line pipe technology and services segment realized a revenue of RMB371 million in 2016, representing a significant increase of 25.9% as compared to that of 2015. In 2016, our offshore engineering services segment faces tough challenges caused by low oil prices. During the reporting period, this segment achieved a total revenue of RMB68 million. In 2016, profit attributable to equity owners of the Company was RMB125 million, representing a decrease of 22.6% as compared to that in 2015.

## YEAR UNDER REVIEW

In 2016, the oil and gas market started to recover slowly in the fourth quarter. However, affected by the overall market depression and the reduction in investments during the first three quarters, the business operations of Hilong experienced severe challenges during this period. Nevertheless, 2016 was also a year for Hilong to intensify its internationalization plan. With efforts devoted by all staff member of the Group, Hilong's operation was relatively stable for the whole year. While maintaining healthy operations, the oilfield services segment diversified its business. Capitalizing on its high-end drilling rig fleet, a diversified customer base and strategic geographic layout, not only did Hilong maintain normal operations with its drilling rig fleet, but it was also awarded contracts by new customers and entered the European drilling services market for the first time, securing stable revenue from drilling services. A significant breakthrough was achieved for comprehensive services in 2016 after two years of incubation. The oilfield equipment manufacturing and services segment, in particular, sales of drill pipe and related products, grew significantly in 2016. This is attributable to the fact that as early as in 2015, Hilong had precisely captured the market dynamics. As such, it actively adjusted its strategic focus of its overseas sales regions by relocating parts of its production lines of drill pipes to Russia and focusing its resources on developing the demand in this area. Localized production has made Hilong's products more competitive, and successfully helped Hilong expand its market share in Russia. OCTG coating services was affected by the continuous depression of international oil prices and the decreasing demand in North America and PRC markets. However, with the increase in oil prices in the fourth quarter, coating business has shown signs of recovery and secured several large orders in Russia. The line pipe technology and services segment continued to implement the development strategy emphasizing diversification, high-end development and internationalization. It strengthened Hilong's domestic and international competitiveness in the field of line pipe coating services through coordinating the development in both domestic and international markets, effectively expanding revenue sources, and balancing market risks. During 2016, the most remarkable achievement of this segment was the provision of the traditional anti-corrosive coating and offshore concrete weighted coating services under the Maoming Project for Sinopec Petroleum. This is the offshore concrete weighted pipeline project with the largest diameter domestically and internationally, enabling us to accumulate experience to continue to undertake large diameter pipeline projects in the future in respect of the line pipe technology and services segment. The offshore engineering services segment secured its first offshore engineering service contract from the overseas market in 2016. It undertook work such as offshore pipeline laying, conduit rack, and the hoisting of the upper modules for the WMO project from TIMAS in Indonesia "Hilong 106" completed the project safely and smoothly, and this supplemented the offshore construction history of Hilong's offshore engineering, and laid a solid foundation for "Hilong 106" to undertake overseas projects in the future.

## PROSPECTS

In 2017, with the recovery of the oil and gas industry, and the increase in global capital expenditure, the business segments of the Company have already shown a strong rebound trend. For the oilfield services, on top of maintaining a steady growth for drilling services, one of Hilong's traditional businesses with strong advantages, the Company will improve its capability in providing integrated oilfield services. Hilong is dedicated to sustaining stable operation of the existing drilling rig fleet and focusing on new regional business deployment so as to lay a foundation for the sustainable growth of the drilling services for the next few years. In addition, Hilong will continue to pursue new opportunities in the market, including the commencement of cooperation with resources subcontractors, actively exploring and studying new markets, conducting qualification review and bidding, developing new type of business and enlarging new customers base. The drill pipe business has shown a strong growth since the start of 2017. In view of the rapid growth of orders in Russia, the Company planned to relocate the second production line from Middle East to Russia in the second half of 2017 to expand its capacity in order to support the local production. Besides, the Company will increase its effort in promoting the overseas sales of high value-added non-API drill pipes and related services. For OCTG coating services, Hilong will continue to focus on market research and development, and actively nurture new market demands to utilize and release the production capacity in the best way and to achieve steady growth during the new development stage. Hilong will continue to implement the development strategy emphasizing diversification, high-end development and internationalization for the line pipe technology and services segment. Apart from continuing to actively take part in major domestic projects and strengthen its market position, Hilong will continue to increase its efforts to explore overseas markets. For instance, for anti-corrosion, we will continue to closely cooperate with High Sealed & Coupled Seamless Steel Pipe Company Limited (HSC) in Algeria. For tubular, Hilong will continue to promote its development in the Pakistan and Russia markets. For offshore concrete weighted, we will seek opportunities to participate in major international line pipe projects and build up a track record. The Company will also accelerate the development of its pipeline inspection business to further explore the market and strengthen the market position. In terms of cooperation within the industry, Hilong will further develop the level of cooperation and the scope of cooperation with CNPC, Sinopec and CNOOC. These initiatives will help Hilong extend and improve the line pipe services industry chain, thereby achieving the goal of growing into a one-stop line pipe solution provider as soon as possible. In 2017, Hilong will continue to expand its domestic and overseas markets. In addition to cooperation with existing clients, the offshore engineering fleet is also actively following up on certain potential customers and orders in the Southeast Asia markets. Other than the traditional offshore oil and gas development industry, it also considers the offshore wind power installation, sewage pipeline construction in coastal cities, water and gas supply pipeline construction, and dock and bridge construction as a major component of Hilong's offshore engineering business development. We see the establishment of a "comprehensive services platform" as our vision, and we will undertake various offshore installation services contracts in all aspects as a general contractor.

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

## APPRECIATION

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

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

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

### Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Lee Siang Chin(1)
Mr. Liu Haisheng (劉海勝)
Mr. Wong Man Chung Francis(2)

## AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Zhang Shuman (張姝嫚)(3)
Ms. Cheng Pik Yuk (鄭碧玉)(4)

## AUDIT COMMITTEE

Mr. Lee Siang Chin
*(Chairman of Audit Committee)*(1)
Mr. Wong Man Chung Francis
*(Chairman of Audit Committee)*(2)
Mr. Wang Tao (王濤)
Ms. Zhang Shuman (張姝嫚)

## REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
*(Chairman of Remuneration Committee)*
Mr. Yuan Pengbin (袁鵬斌)
Mr. Lee Siang Chin(1)
Mr. Wong Man Chung Francis(2)

## NOMINATION COMMITTEE

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

## JOINT COMPANY SECRETARIES

Ms. Zhang Shuman (張姝嫚)(5)
Ms. Cheng Pik Yuk (鄭碧玉)

## AUDITOR

PricewaterhouseCoopers

## REGISTERED OFFICE

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

## HEADQUARTER

No. 1825, Luodong Road
Baoshan Industrial Zone
Shanghai
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

*Note:* (1) Resignation took effect on 24 March 2017
(2) Appointment took effect on 24 March 2017
(3) Resignation took effect on 24 March 2017
(4) Appointment took effect on 24 March 2017
(5) Resignation took effect on 24 March 2017

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

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

## STOCK CODE

1623

## WEBSITE AND CONTACT

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Tel: 852-2506-0885
Fax: 852-2506-0109

## FINANCIAL REVIEW

### Revenue

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **RMB'000** | **%** | RMB'000 | % |
| **Oilfield equipment manufacturing and services** | | | | |
| – Drill pipes | **510,056** | **26.4** | 417,600 | 16.8 |
| – Oil country tubular goods ("OCTG") coating services | **202,671** | **10.5** | 218,930 | 8.8 |
| – Drill pipe components | **24,801** | **1.3** | 11,588 | 0.5 |
| – Hardbanding | **24,018** | **1.3** | 9,147 | 0.4 |
| – Others | **19,644** | **1.0** | 19,197 | 0.7 |
| **Subtotal** | **781,190** | **40.5** | 676,462 | 27.2 |
| **Line pipe technology and services** | | | | |
| – OCTG coating materials | **86,078** | **4.5** | 40,081 | 1.6 |
| – Oil and gas line pipe coating materials | **104,045** | **5.4** | 88,892 | 3.6 |
| – Oil and gas line pipe coating services | **136,067** | **7.1** | 127,887 | 5.1 |
| – Corrosion Resistant Alloy (CRA) lined pipe | **8,039** | **0.4** | 36,348 | 1.5 |
| – Concrete Weighted Coating (CWC) services | **28,404** | **1.5** | – | – |
| – Pipeline inspection services | **8,675** | **0.4** | 1,830 | 0.1 |
| **Subtotal** | **371,308** | **19.3** | 295,038 | 11.9 |
| **Oilfield services** | **708,699** | **36.7** | 922,979 | 37.2 |
| **Offshore engineering services** | **67,840** | **3.5** | 589,850 | 23.7 |
| **Total revenue** | **1,929,037** | **100.0** | 2,484,329 | 100.0 |

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **RMB'000** | **%** | RMB'000 | % |
| The PRC | **716,924** | **37.2** | 1,253,316 | 50.4 |
| Russia, Central Asia and East Europe | **479,344** | **24.8** | 173,518 | 7.0 |
| North and South America | **242,997** | **12.6** | 595,220 | 24.0 |
| South Asia | **239,449** | **12.4** | 133,357 | 5.3 |
| Africa | **211,443** | **11.0** | 260,487 | 10.5 |
| Middle East | **38,852** | **2.0** | 68,317 | 2.7 |
| Others | **28** | **0.0** | 114 | 0.1 |
| **Total** | **1,929,037** | **100.0** | 2,484,329 | 100.0 |

Revenue decreased by RMB555.3 million, or 22.4%, from RMB2,484.3 million in 2015 to RMB1,929.0 million in 2016. Such decrease primarily reflected a decrease in revenue from the offshore engineering services segment.

***Oilfield equipment manufacturing and services***. Revenue from the oilfield equipment manufacturing and services segment increased by RMB104.7 million, or 15.5%, from RMB676.5 million in 2015 to RMB781.2 million in 2016. Such increase primarily reflected an increase in revenue derived from sales of drill pipes.

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| **Sales of drill pipes** | | |
| – International market | | |
| – volume (tonnes) | **23,138** | 11,947 |
| – unit price (RMB/tonne) | **18,108** | 21,152 |
| **Subtotal (RMB'000)** | **418,978** | 252,711 |
| – The PRC market | | |
| – volume (tonnes) | **5,366** | 8,427 |
| – unit price (RMB/tonne) | **16,973** | 19,567 |
| **Subtotal (RMB'000)** | **91,078** | 164,889 |
| **Total (RMB'000)** | **510,056** | 417,600 |

Revenue from sales of drill pipes in the international market increased by RMB166.3 million, or 65.8%, from RMB252.7 million in 2015 to RMB419.0 million in 2016. The increase primarily reflected a 93.7% increase in the volume of drill pipes sold from 11,947 tonnes in 2015 to 23,138 tonnes in 2016, offset by a 14.4% decrease in the average selling price in the international market from RMB21,152 per tonne in 2015 to RMB18,108 per tonne in 2016. The increase in the sales volume primarily reflected the large demands from the Russia market and the enhancement of Hilong's brand recognition in this region. While the decrease in average selling price primarily reflected a higher proportion of revenue generated from American Petroleum Institute ("API") drill pipe products, which usually have a lower unit price than non-API drill pipe products, in 2016 compared to that of 2015.

Revenue from sales of drill pipes in the PRC market decreased by RMB73.8 million, or 44.8%, from RMB164.9 million in 2015 to RMB91.1 million in 2016. The decrease reflected a 36.3% decrease in volume of drill pipes sold in the PRC market from 8,427 tonnes in 2015 to 5,366 tonnes in 2016 and, a 13.3% decrease in the average selling price in the PRC market from RMB19,567 per tonne in 2015 to RMB16,973 per tonne in 2016. The decrease in the sales volume primarily reflected the delay in capital and operation spending by certain oil and gas companies in the PRC market. While the decrease in average selling price primarily reflected (i) a higher proportion of revenue generated from API drill pipe products in 2016 compared to that in 2015, and (ii) a decrease in the guideline price of API drill pipe products based on the annual bid of both CNPC and Sinopec Group decreased in 2016 compared to that in 2015.

Revenue from OCTG coating services decreased by RMB16.2 million, or 7.4%, from RMB218.9 million in 2015 to RMB202.7 million in 2016. The deceasing was mainly due to a decrease in revenue from OCTG coating services in both the international market and the PRC market due to the delay in capital and operation spending by certain international and PRC oil and gas companies in 2016.

Revenue from sales of drill pipe components increased by RMB13.2 million, or 113.8%, from RMB11.6 million in 2015 to RMB24.8 million in 2016. The increase primarily reflected the increase in demands for tool joints and pipes from customers in 2016 compared to that in 2015.

***Line pipe technology and services***. Revenue from the line pipe technology and services segment increased by RMB76.3 million, or 25.9%, from RMB295.0 million in 2015 to RMB371.3 million in 2016. Such increase primarily reflected an increase in the revenue derived from OCTG coating materials and CWC services, though partially offset by a decrease in the revenue derived from CRA lined pipe.

The increase in revenue from OCTG coating materials primarily reflected our continuous efforts to promote our high quality OCTG coating materials in the market.

The increase in revenue from CWC services reflected the increasing demand for CWC services in the PRC in 2016.

The decrease in revenue from CRA lined pipe reflected the decreasing demand for CRA lined pipe in the PRC in 2016.

***Oilfield services***. Revenue from the oilfield services segment decreased by RMB214.3 million from RMB923.0 million in 2015 to RMB708.7 million in 2016. Such decrease was attributable to (i) the decrease in revenue from the provision of OCTG trading and logistics services to oilfield services clients, and (ii) the lower oilfield services revenue due to the fact that some drilling rigs were relocated and had no workload during such relocation.

***Offshore engineering services***. Revenue from the offshore engineering services segment in 2016 represented the revenue recognized from the completion of the TIMAS PHE WMO Project. Besides, following the completion of the two offshore engineering procurement, construction and installation ("EPCI") service contracts with CNOOC, further revenue of such two projects got recognized in 2016.

## Cost of Sales/Services

Cost of sales/services decreased by RMB412.2 million, or 24.6%, from RMB1,674.4 million in 2015 to RMB1,262.2 million in 2016. Such decrease primarily reflected a decrease in the cost of the offshore engineering services segment.

## Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB143.1 million, or 17.7%, from RMB809.9 million in 2015 to RMB666.8 million in 2016. Gross profit margin increased from 32.6% in 2015 to 34.6% in 2016.

The slight increase in gross profit margin primarily reflected the different revenue mix generated during 2016 as compared to 2015. In 2016, the oilfield services segment with a higher gross profit margin accounted for a higher proportion of revenue while the offshore engineering services segment with a lower gross profit margin accounted for a lower proportion of revenue.

## Selling and Marketing Expenses

Selling and marketing expenses increased by RMB15.9 million, or 14.6%, from RMB109.2 million in 2015 to RMB125.1 million in 2016, mainly reflecting (i) an increase in freight fees from the expansion of the oilfield equipment manufacturing and services segment in the Russia market, and (ii) the expenses due to the offshore engineering services segment. For 2015, the offshore engineering services segment incurred less selling and marketing expenses compared to that of the other three business segments of the Group.

## Administrative Expenses

Administrative expenses decreased by RMB61.2 million, or 16.4%, from RMB372.8 million in 2015 to RMB311.6 million in 2016. Such decrease primarily reflected a decrease in staff costs, travelling expenses and office expenses.

## Other Gains – net

The Group recognized a net gain of RMB96.6 million in 2015 and RMB262.4 million in 2016. The net gain recognized in 2016 primarily reflected an exchange gain of RMB222.1 million from operating activities as a combined result of the appreciation of United States Dollar ("USD") and Hong Kong Dollar ("HKD") and the depreciation of Canadian Dollar and Naira, and government grants of RMB22.8 million in relation to new and high-technology projects. The net gain recognized in 2015 primarily reflected a net foreign exchange gain of RMB78.3 million, and government grants of RMB16.3 million in relation to new and high-technology projects.

## Finance Costs – net

Finance costs – net in 2016 mainly reflected (i) interest expenses from bank borrowings, after capitalization, of RMB161.1 million, and (ii) the appreciation of United States Dollar and Hong Kong Dollar resulting in an exchange loss of RMB157.3 million from financing activities. Finance costs – net in 2015 mainly reflected (i) interest expenses from bank borrowings, after capitalization, of RMB123.0 million, and (ii) foreign exchange loss of RMB115.7 million.

## Profit before Income Tax

As a result of the foregoing, profit before income tax decreased from RMB199.4 million in 2015 to RMB175.6 million in 2016.

## Income Tax Expense

The Group recognized income tax expenses of RMB25.2 million in 2015 and RMB47.7 million in 2016. The effective tax rate was approximately 12.7% in 2015 and 27.1% in 2016. The increase in effective tax rate was mainly attributable to the increase in interest expenses from offshore borrowings that were not deductible.

## Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company decreased from RMB161.0 million in 2015 to RMB124.6 million in 2016.

## Inventories

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

| | As at 31 December | |
|---|---|---|
| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
| Inventory | **798,759** | 804,194 |
| Turnover days of inventory (in days)[(1)] | **236** | 179 |

(1) Turnover days of inventory for a year equals average inventory divided by the total cost of sales and then multiplied by 365 for each of the years ended 31 December 2015 and 2016. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase in turnover days of inventory from 179 days as at 31 December 2015 to 236 days as at 31 December 2016 primarily reflected lower revenue derived from the provision of services, which generally has less consumption of inventory compared to that from sales of goods.

## Trade and Other Receivables

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

| | As at 31 December | |
|---|---|---|
| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
| Trade receivables | | |
| – Due from third parties | **1,643,817** | 1,510,650 |
| – Due from related parties | **12,869** | 38,316 |
| – Less: Provision for impairment of receivables | **(33,511)** | (27,237) |
| **Trade receivables – net** | **1,623,175** | 1,521,729 |
| Other receivables | | |
| – Due from third parties | **91,861** | 87,744 |
| – Due from related parties | **104,618** | 76,348 |
| **Other receivables** | **196,479** | 164,092 |
| Bills receivable | **34,073** | 34,615 |
| Prepayments | **184,894** | 133,837 |
| Dividend receivables | **1,550** | 3,346 |
| **Total** | **2,040,171** | 1,857,619 |

Net trade receivables represent receivables from the sales of products and the 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 party and related parties as at the dates indicated and turnover days of the net trade receivables as at the dates indicated:

| | As at 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| Trade receivables, net | | |
| – Within 90 days | **623,899** | 725,537 |
| – Over 90 days and within 180 days | **134,241** | 264,531 |
| – Over 180 days and within 360 days | **234,892** | 236,135 |
| – Over 360 days and within 720 days | **510,644** | 231,735 |
| – Over 720 days | **119,499** | 63,791 |
| | **1,623,175** | 1,521,729 |
| Turnover days of trade receivables, net(1) | **298** | 225 |

(1) Turnover days of net trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2015 and 2016. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the year plus that at the end of the year, divided by two.

As at 31 December 2016, trade receivables of RMB970.2 million, representing 59.8% of the Group's trade receivables after impairment, remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from the subsidiaries' related party entities. As at the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

The increase in turnover days of net trade receivables from 225 days as at 31 December 2015 to 298 days as at 31 December 2016 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was less active and slowed down in 2016.

## Trade and Other Payables

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

| | As at 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| Bills payable | **96,287** | 75,393 |
| Trade payables | | |
| – Due to related parties | **–** | – |
| – Due to third parties | **511,514** | 702,395 |
| Other payables | | |
| – Due to related parties | **97,386** | 31,483 |
| – Due to third parties | **38,579** | 48,853 |
| Staff salaries and welfare payable | **45,174** | 43,022 |
| Advance from customer | **95,367** | 70,913 |
| Interest payables | **21,807** | 15,286 |
| Accrued taxes other than income tax | **36,108** | 53,374 |
| Dividends payable | **1,463** | 1,463 |
| Other liabilities | **7,227** | 16,052 |
| | **950,912** | 1,058,234 |

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 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Trade payables, gross | | |
| – Within 90 days | **325,061** | 537,038 |
| – Over 90 days and within 180 days | **170,397** | 101,272 |
| – Over 180 days and within 360 days | **10,400** | 62,662 |
| – Over 360 days and within 720 days | **5,458** | 1,275 |
| – Over 720 days | **198** | 148 |
| | **511,514** | 702,395 |
| Turnover days of trade payables(1) | **176** | 138 |

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2015 and 2016. Average trade payables equals balance of trade payables at the beginning of the year plus that at the end of the year, divided by two.

The decrease in the balance of trade payables due to third parties from 31 December 2015 to 31 December 2016 primarily reflected the decrease in unbilled payables due to suppliers of the offshore engineering services segment.

## BUSINESS REVIEW

In 2016, the oil and gas industry moved forward with difficulties in the process of re-balance. Although there was still a decline in annual average international oil price as compared to that of the previous year, the international oil price started to recover slowly after rebounding from the bottom, as driven by the joint agreement to reduce production entered into by the Organization of the Petroleum Exporting Countries ("OPEC") and certain non-OPEC oil producing countries during the fourth quarter. Affected by the overall market depression and the reduction in investment during the first three quarters, the business operations of Hilong experienced severe challenges during this period. Nevertheless, 2016 was also a year for Hilong to further intensify its internationalization process. During this year, the drill pipe plant in Russia was put into operation, the oilfield services entered the European drilling services market for the first time, and overseas contracts for offshore engineering were obtained. All of these contributed to the continuous growth impetus for the Company's sustainable development in the future. Overall, Hilong maintained relatively stable operations during the reporting period, realizing a revenue of RMB1,929 million, representing a decrease of 22.4% as compared to that in 2015. Profit attributable to equity owners of the Company was RMB125 million, representing a decrease of 22.6% as compared to that in 2015.

## Oilfield Services

The oilfield services segment successfully maintained healthy operations as a whole in 2016, and remained as the core revenue source of the Company. During the period, this segment realized a revenue of RMB709 million, representing a decrease of 23.2% as compared to that of the same period in 2015. As the core business of the segment, the drilling services maintained a stable development, and achieved a revenue of RMB610 million during the reporting period, representing a decrease of 11.7% as compared to that of the same period in 2015. Due to the continuous slump of the global oil and gas market, the oilfield services industry, both domestic and overseas, is generally faced with the predicament of a sharp decline in production volume and a significant drop in day rate, especially in the first three quarters of 2016. Nevertheless, capitalizing on its high-end drilling rig fleet and a diversified customer base, Hilong actively participated in biddings in the market, adjusted its drilling rig allocation, and successfully secured the normal operations of its drilling rig fleet and a relatively strong bargaining power amid the turbulent market. In 2016, Hilong reasonably adjusted its oilfield services strategies, engaged a new customer, Pakistan Petroleum Limited and entered into a long-term drilling contract, which effectively enhanced the utilization rate of our drilling rigs. Hilong's oilfield services also entered the Europe's drilling services market for the first time in June. The ultra deep drilling service for Shell Oil Company Limited in the Albanian region was undertaken by the HL-30 drilling fleet of Hilong Oil Service & Engineering Albania SHPK. The HL-6 drilling fleet of the Hilong Petroleum Technology & Engineering Co., Ltd. successfully won the tender for the Geo-jade Petroleum's project in Kazakhstan, undertaking the turnkey drilling service. Hilong's capability of successfully engaging new customers and securing new contracts under tough market conditions has once again demonstrated its strong abilities, leading position and high customer recognition in the field of international premium onshore drilling services. While maintaining stable operations for its traditional advantageous business, Hilong also actively developed new business lines and expanded its operating model. Hilong has achieved a significant breakthrough in comprehensive services in 2016. After two years of incubation, Hilong has established its comprehensive services team, covering a number of areas including completion fluids, directional drilling, horizontal drilling, oil and gas testing, debris and sewage treatment and well completion, and has secured service contracts from various domestic and overseas customers. In 2016, the comprehensive services team of Hilong successfully entered into and implemented the project of oil and gas for testing in an exploration area for GCL-Poly Energy Holdings Limited in Ethiopia. The team also provided comprehensive technical services projects, including drilling fluid, completion fluid, directional drilling, horizontal drilling, debris and sewage treatment, for United Energy Group Limited in Pakistan. In the future, Hilong will continue to increase the power of its technology team and the investment of resources to vigorously expand the content and scope of its comprehensive services, and to develop it into a diversified revenue source for the oilfield services segment in the new development era, further pushing Hilong's transformation as an comprehensive integrated oilfield services provider.

## Oilfield Equipment Manufacturing and Services

The oilfield equipment manufacturing and services segment achieved a total revenue of RMB781 million in 2016, representing an increase of 15.5% as compared to that of the same period in 2015. The revenue generated from the drill pipe and related products business amounted to RMB579 million, representing an increase of 26.4% as compared to 2015. The increase of revenue of the drill pipe and related products business was mainly attributed to the rapid growth of market share in Russia, and the replenishment of inventories from customers from other regions. 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 the demand for drill pipes in Russia and its surrounding areas. Hilong relocated parts of its production lines of drill pipes to Russia in 2015 in order to develop the drill pipe market for this region more effectively. Those production lines had commenced operations successfully in the second half of 2016, and secured a lot of orders. Localized production has made Hilong's products more competitive, and successfully helped Hilong expand its market share in Russia. In November 2016, Hilong successfully signed a bid 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. The bid order also further demonstrated the high level of customer satisfaction and recognition for Hilong. In addition, Hilong continued to invest in the product research, development and promotion of drill pipe products. In 2016, the successful improvement in respect of the research and development of materials and processes resulted in a substantial increase in production efficiency and a reduction of the production costs of drilling tools. In addition, certain non-API drill pipe products developed by Hilong such as sour service drill pipes were highly recognized by customers, and were widely applied across the industry.

The revenue generated from our OCTG coating services business was RMB203 million during the reporting period, representing a decrease of 7.4% as compared to that in 2015. The decline in coating services revenue was mainly due to the impact of the continuous depression of international oil prices and the decreasing demand in North America and PRC markets. However, with the increase in oil prices in the fourth quarter, the coating business has shown signs of recovery, and secured several large orders in Russia. In 2016, OCTG coating services had a major breakthrough in the Middle East market, with liquid and powder coating being fully certified by Petroleum Development Oman. Meanwhile, we secured a trial order of ground pipelines for about 30 kilometers from Petroleum Development Oman in the second half of 2016. Since the establishment of the OCTG coating services business, Hilong has maintained its leading position in the area of coating services of drill pipes. In recent years, Hilong has continued to strive to expand its service scope and revenue sources. The Company has been actively promoting the application of coatings for tubings and casings, as well as coatings for ground-level pipelines, and has seen some fruitful results. In 2016, under the sluggish demand in the domestic OCTG coating market, we had a significant breakthrough in respect of ground-level pipeline coatings, securing orders in Dagang Oilfield and Changqing Oilfield respectively. The above-mentioned efforts in expanding production capacity and broadening our service scope have further strengthened the Company's competitiveness in the area of OCTG coating services over the past few years.

## Line Pipe Technology and Services

The line pipe technology and services segment realized a revenue of RMB371 million in 2016, representing a significant increase of 25.9% as compared to that of 2015. For 2016 onwards, 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 field of line pipe coating services through coordinating the development in both domestic and international markets, effectively expanding revenue sources, and balancing market risks. Despite the relatively tough challenges within this segment in 2016, Hilong still secured several orders from both domestic and overseas markets amid the competitive market environment, owing to its track record established through participation in large domestic projects such as West-East Gas Pipe Lines I, II and III Project and the relevant sections of the CNPC's Shaan-Jing III and IV Project in the past, and extensive experiences accumulated from overseas markets in recent years. These orders include the allocation and coating business of the Maoming petro-chemical project for Sinopec Petroleum Engineering Company Limited ("Maoming Project for Sinopec Petroleum"); the contract of irregular bend tubes for KOC Company in Kuwait; the LNG Project in Pakistan; the coating business for High Sealed & Coupled Seamless Steel Pipe Company Limited (HSC) in Algeria; and the coating business for Shaan-Jing IV Project. During the year, the most remarkable achievement of this segment was the provision of the traditional anti-corrosive coating and offshore concrete weighted coating services under the Maoming Project for Sinopec Petroleum. This is the offshore concrete weighted pipeline project with the largest diameter domestically and internationally. Through this project, Hilong's weight production process and its ability have been greatly improved, and Hilong has accumulated experience for it to continue to undertake large diameter pipeline projects in the future in respect of the line pipe technology and services segment. The line pipe inspection business to maintain a promising development momentum, and has successfully provided pipeline inspection services in the external inspection project for Shanghai Network Pipeline Limited, the internal inspection project for the gas pipe in Ake Kashgar for Tarim Oilfield Southwest Exploration and Development Company, and the inspection for drilling tools and wear-resistant tape welding business provided by Hilong Oilfield Service & Engineering Albania SHPK for the Shell Oil project. These have expanded the Company's business scope and its international market. In addition, Hilong has also actively followed up with other customers regarding potential pipeline inspection services projects. These achievements are in line with the development plan of diversification, high-end development and internationalization for the line pipe technology and services segment, and will effectively improve the overall profitability of this segment. Synergic development between domestic and international markets will also facilitate the expansion of its revenue sources, the balance of market risks and the enhancement of Hilong's international competitiveness in the field of line pipe coating services.

## Offshore Engineering Services

In 2016, our offshore engineering services segment faces tough challenges caused by low oil prices. During the reporting period, this segment achieved a total revenue of RMB67.84 million, representing a significant decline as compared to that of 2015. However, in 2015, the achievement from Hilong's successful offshore pipeline laying construction for CNOOC's East China Sea Project and the Weizhou Phase II Project in the Gulf of Tonkin of South China Sea were highly commended by the customers. A number of innovative design plans proposed by our design service team were highly recognized by the customers, and were tested during the execution process. It laid a solid foundation for Hilong to secure orders amid the very tough market environment.

In 2016, Hilong successfully secured the WMO Project contract from TIMAS in Indonesia, pursuant to which "Hilong 106", the offshore 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 pipe-laying and derrick operations contract secured by Hilong, as well as the first offshore engineering service contract awarded from overseas market. In mid-October, 2016, "Hilong 106" completed the project safely and smoothly, and was highly recognized by Indonesian State Oil and Natural Gas Mining Company (PERTAMINA) and the general contractor, TIMAS. This supplemented the offshore construction history of Hilong's offshore engineering, and laid a solid foundation for "Hilong 106" to undertake overseas projects in the future.

In 2016, Hilong successfully secured a contract from CNPC Offshore Engineering Company Limited ("CPOE") for its Zhoushan Phase III Project, to provide the pipe-laying services of 48-inch water supply pipes.

In 2016, Hilong's offshore engineering design service team successfully secured a part of the subcontracting design service for Sinopec Shanghai Offshore Petroleum Bureau's project at the North Sea in the United Kingdom and the CPOE Zhoushan water pump installation and design contract.

In 2016, with an aim to expand its business scope 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 secured 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

Looking forward to 2017, with the recovery of the oil and gas industry, and the increase in global capital expenditure, the supply and demand of the oil market is expected to return to its balance. Despite facing several market challenges, various business segments of the Company have already shown a strong rebound trend in the fourth quarter. In the past few years, Hilong has actively explored the path for reform and development, and has built a diversified business portfolio through restructuring its existing businesses and venturing into new businesses. In the future, Hilong will continue to focus on specialized operations while improving its profitability and capability against risks through maintaining an adequately diversified business portfolio, in order to lay a solid foundation for the Company's development during the new stage and under the new market environment.

### Oilfield Services

The oilfield services segment will keep up the momentum of steady development. The sustained and stable operation of the existing drilling rig fleet has always been the core concept in maintaining the steady operation of the entire segment. The Company will maintain smooth communications with its existing customers and improve the operational efficiency on the basis of ensuring the smooth continuation of contracts. The new drilling rig activated in the Albanian market by the Company in the first half of 2016 has already successfully commenced drilling services. At the same time, the drilling rig moved from Ecuador to Pakistan has also officially commenced services in 2016 and will contribute to the revenue for the full year in 2017. All these rigs will lay a foundation for the sustainable growth of the drilling services for the next few years. In addition, Hilong will continue to pursue new opportunities in the market, including developing new regional markets and enlarging new customers base. Currently, Hilong is focusing on the business deployment in the Middle East, with regions like Iraq and Abu Dhabi, etc. as the key target markets, and proactively participating in project biddings in those regions. In addition, the Company will strive to cooperate with weighty resources subcontractors, such as Weatherford Energy Services Co., Ltd. and China Oilfield Services Limited etc.; actively explore and study markets including Russia, Algeria, and the Sultanate of Oman, conduct qualification review and bidding, and identify new growth drivers for its drilling services, which is one of Hilong's traditional businesses with strong advantages. In the meantime, the Company is dedicated to improving its capability in providing integrated oilfield services, and will further focus on fostering the development of comprehensive services business. Currently, Hilong's comprehensive services have achieved initial results and secured several sizeable contracts in both domestic and overseas markets. Hilong will make every effort to ensure the successful execution of these projects in 2017 in order to establish a solid track record and sound reputation in the industry, laying the foundation for market expansion in the future.

## Oilfield Equipment Manufacturing and Services

Hilong's drill pipe business has gained great recognition in the international market through precise strategic layout and years of incubation. The rapid expansion of the business in Russia has further proved the influence of Hilong in the international market. Nevertheless, Hilong's drill pipe business is highly reputed in China, but its global market share as a whole is still relatively limited. Looking forward to 2017, with the increasing stabilisation of international oil prices, the prospects of the domestic and overseas oil and gas industry is becoming promising. The business of drill pipe and related products, as one of Hilong's traditional cornerstone businesses, has also shown signs of strong rebound. Due to the rapid growth of orders in Russia, the Company planned to relocate the second production line from Middle East to Russia in the second half of 2017 to expand its capacity in order to support the local production. In addition, Hilong also entered into a contract with Eriell Group International Limited in February 2017 to become its sole supplier of drill pipes in its joint project with Uzbekistan's State Oil and Gas Company in Uzbekistan. This indicates that the drill pipes of Hilong are recognised and well received in the Commonwealth of Independent States other than Russia. It has laid a solid foundation for Hilong to further expand to overseas markets.

Besides, the Company will increase its effort in promoting the overseas sales of high value-added non-API drill pipes and related services to enhance the recognition of Hilong among the international customer base. On the other hand, Hilong will promote the drill pipe leasing business in North America through providing customized services to customers, enhancing the customer experience, consolidating customer relationships and promoting new products.

The OCTG coating services business is expected to recover slowly. This business is one of Hilong's traditional superior businesses with the most remarkable profitability. In recent years, Hilong has deployed new production capacity, or upgraded or improved the existing production facilities for this business in key strategic locations both domestically and internationally in a planned manner. In 2017, the Company is planning to establish another coating plant in Surgutsky District, Russia, which is expected to commence productions in the second half of the year. At present, Hilong is fully equipped with the capability of spray coating for all series of OCTG pipes and various types of new pipes. This significantly expands the business scope of Hilong's OCTG coating services, effectively enhances the production efficiency, and fully prepares Hilong, both in respect of technologies and production capability, to seize the growing market demand for high-end coatings for tubings and casings and other new types of pipes. Hilong will continue to focus on market research and development, and actively nurture new market demands to utilize and release the production capacity in the best way and to achieve steady growth during the new development stage.

## Line Pipe Technology and Services

Looking forward to 2017, as the global oil and gas market is recovering, major oil and gas pipeline construction projects, both domestic and overseas, are also expected to launch gradually or resume normal construction. Hilong's line pipe coating services business will also embrace new development opportunities. Hilong has been providing coating services for a number of overseas pipeline construction projects in recent years, through which we have accumulated extensive experiences and established a good reputation among international customers, and our qualification and capability are widely accepted. Apart from continuing to actively take part in major domestic projects and solidify the good cooperation with its existing domestic customers, Hilong will continue to increase its efforts to explore overseas markets. For example, for anti-corrosion, we will continue to closely cooperate with High Sealed & Coupled Seamless Steel Pipe Company Limited (HSC) in Algeria. For tubular, Hilong will continue to promote its development in the Pakistan and Russia markets. For offshore concrete weighted, we will seek opportunities to participate in major international line pipe projects and build up a track record. The Company will also accelerate the development of its pipeline inspection business to further explore the market and strengthen the market position. In terms of cooperation within the industry, Hilong will further develop the level of cooperation and the scope of cooperation with CNPC, Sinopec and CNOOC. These initiatives will help Hilong extend and improve the line pipe services industry chain, thereby achieving the goal of growing into a one-stop line pipe solution provider as soon as possible.

## Offshore Engineering Services

In 2016, the work volume was insufficient due to the weakening of the offshore engineering industry as a whole. However, Hilong had actively expanded to overseas markets and completed the contract with TIMAS in Indonesia in the second half of 2016. In 2017, "Hilong 106" will continue to cooperate with TIMAS to install conduit racks for Husky Project. In the meantime, our offshore engineering fleet is also actively following up on potential customers and orders in multiple Southeast Asia markets. Other than the traditional offshore oil and gas development industry, it also considers the offshore wind power installation, sewage pipeline construction in coastal cities, water and gas supply pipeline construction, and dock and bridge construction as a major component of Hilong's offshore engineering business development. We see the establishment of a "comprehensive services platform" as our vision, and we will undertake various offshore installation services contracts in all aspects as a general contractor. In 2018, "Hilong 106" is going to cooperate with Saipem, a renowned international EPCI contractor, to install offshore well-shaft platforms and lay offshore pipelines for the BP Tangguh project. The project will help Hilong build extensive experience and reputation. At the same time, the ability to secure the project in the current challenging market has further proved the competitiveness of Hilong's offshore engineering fleet. The pace of development for the offshore engineering design services will also speed up, providing solid technical support for "Hilong 106" while expanding its external design consultation services business. Currently, we have commenced cooperation with CNOOC and Sinopec Shanghai Offshore Petroleum Bureau in areas including offshore engineering design and construction, to jointly promote the development of new technologies, new materials, and new skills for offshore engineering. This fully reflected the wide recognition of Hilong's high-standard capability of providing offshore engineering design, construction and integrated services in the domestic market. Going forward, Hilong will continue to broaden and intensify its strategic cooperation with high-end domestic customers, and achieve a solid track record in the domestic market. Meanwhile, Hilong continues to actively seek to establish exchanges and cooperation with leading international enterprises in the area of offshore engineering services in order to lay a foundation to tap into a broader international market.

We strongly believe that, with our perseverance and efforts, Hilong will continue to create stable return to our shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Net cash from operating activities | **139,322** | 484,774 |
| Net cash used in investing activities | **(94,515)** | (235,795) |
| Net cash from/(used in) financing activities | **(203,060)** | 12,791 |
| Net increase/(decrease) in cash and cash equivalents | **(158,253)** | 261,770 |
| Exchange gains/(losses) on cash and cash equivalents | **(5,689)** | 11,537 |
| Cash and cash equivalents at beginning of the year | **821,364** | 548,057 |
| Cash and cash equivalents at end of the year | **657,422** | 821,364 |

As at 31 December 2016, cash and cash equivalents are mainly denominated in RMB, USD, RUB, NGN, PKR and CAD.

### Operating Activities

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

Net cash from operating activities in 2015 was RMB484.8 million, representing cash generated from operations of RMB682.4 million, partially offset by the interest payment of RMB116.3 million and income tax payment of RMB81.3 million.

### Investing Activities

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

Net cash used in investing activities in 2015 was RMB235.8 million, primarily reflecting the payment of RMB238.9 million for purchases of property, plant and equipment, and to a lesser extent, partially offset by proceeds of RMB3.2 million from disposal of property, plant and equipment.

### Financing Activities

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

There was almost no net cash generated from or used in financing activities in 2015, for proceeds of RMB1,310.9 million from borrowings was offset by (i) repayment of borrowings of RMB1,227.4 million, and (ii) dividends payment of RMB66.9 million.

## CAPITAL EXPENDITURES

Capital expenditures were RMB306.5 million and RMB269.3 million in 2015 and 2016 respectively. The decrease in capital expenditures for 2016 was mainly due to the Group's implementation of capital expenditures saving policy and achieved favourable results.

## INDEBTEDNESS

As at 31 December 2016, the outstanding indebtedness of RMB2,748.1 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 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| **Non-current** | | |
| Bank borrowings – unsecured | **1,703,570** | 2,156,532 |
| Bank borrowings – secured | **–** | – |
| Less: Current portion of non-current borrowings | **(386,159)** | (1,072,068) |
| | **1,317,411** | 1,084,464 |
| **Current** | | |
| Bank borrowings – secured | **512,223** | 50,377 |
| Bank borrowings – unsecured | **532,296** | 470,003 |
| Current portion of non-current borrowing | **386,159** | 1,072,068 |
| | **1,430,678** | 1,592,448 |
| | **2,748,089** | 2,676,912 |

As at 31 December 2016, borrowings of RMB788,655,000 were obtained at fixed rates (31 December 2015: RMB406,159,000).

The bank borrowings of RMB168,867,000 (31 December 2015: RMB50,377,000) were secured by bank deposits of RMB103,044,000 of the Group as at 31 December 2016 (31 December 2015: RMB32,544,000).

The bank borrowings of RMB11,191,000 (31 December 2015: Nil) were secured by commercial acceptance bills of the Group as at 31 December 2016.

As at 31 December 2016, there were bank borrowings of RMB20,000,000 (31 December 2015: Nil) were borrowed by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., a subsidiary of the Group, which was secured by the non-controlling interest of the Group.

In September 2016, the Company entered into USD loan agreements with financial institutions amounted to USD45,000,000. These loan principals were secured by the ultimate Controlling Shareholder of the Group and Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., one of the related parties of the Group.

## 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 its 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 31 December 2016 and 2015 are as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
| Total borrowings | **2,748,089** | 2,676,912 |
| Less: Cash and cash equivalents | **(657,422)** | (821,364) |
| **Net debt** | **2,090,667** | 1,855,548 |
| Total equity | **3,491,878** | 3,256,136 |
| **Total capital** | **5,582,545** | 5,111,684 |
| **Gearing ratio** | **37.45%** | 36.30% |

## FOREIGN EXCHANGE

The Group mainly operates in the PRC, and also has network in various countries and regions around the world. The Group is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to USD. Foreign exchange risk arises from recognizing assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 16.2% appreciation of RMB against the USD from 21 July 2005 to 31 December 2016. There remains significant pressure on the PRC government to adopt a more flexible currency policy, which could result in a 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 natural hedging by actively matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 55.8% and 42.1% of the total revenue of the Group in 2015 and 2016, respectively.

## STAFF AND REMUNERATION POLICY

As at 31 December 2016, the total number of full-time employees employed by the Group was 2,608 (31 December 2015: 2,632). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2016:

| | |
|---|---|
| On-site workers | 1,554 |
| Administrative | 478 |
| Research and development | 132 |
| Engineering and technical support | 269 |
| Company management | 41 |
| Sales, marketing and after-sales services | 134 |
| | 2,608 |

Employee costs excluding Directors' remuneration totalled RMB395,964,000 for 2016.

The Group offers employees remuneration packages mainly on the basis of individual performance and experience and also pays with regard to industrial practice. The packages include basic wages, performance related bonuses and social security and benefits. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on the relevant statutory percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labour and social welfare authorities.

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

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

# DIRECTORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

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

| Name | Age | Management Position |
|---|---|---|
| ZHANG Jun (張軍) | 49 | Chairman, Executive Director and chief executive officer |
| WANG Tao (汪濤) | 53 | Executive Director and executive president |
| ZHANG Shuman (張姝嫚) | 43 | Non-executive Director and chief strategy officer |
| YUAN Pengbin (袁鵬斌) | 58 | Non-executive Director |
| LI Huaiqi (李懷奇) | 67 | Non-executive Director |
| YANG Qingli (楊慶理) | 60 | Non-executive Director |
| WANG Tao (王濤) | 70 | Independent Non-executive Director |
| LEE Siang Chin (1) | 68 | Independent Non-executive Director |
| LIU Haisheng (劉海勝) | 70 | Independent Non-executive Director |
| WONG Man Chung Francis (黃文宗)(2) | 52 | Independent Non-executive Director |

### Executive Directors

**Mr. ZHANG Jun (張軍)**, aged 49, is an Executive Director, the chairman of the Board and chief executive officer of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. As the chief executive officer, Mr. Zhang is responsible for the overall business operations and strategy formulation of the Company. Mr. Zhang has over 26 years of experience in the petroleum industry. From 2001 to 2007, he engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. During his service as vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was awarded as the "Top 10 Influential Leaders in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009 (2009中國石油石化裝備製造業十大最具影響力領軍人物)" by the National Energy Commission (國家能源委員會). Mr. Zhang is the brother of Ms. ZHANG Shuman, Non-executive Director and chief strategy officer of the Company and he is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

**Mr. WANG Tao (汪濤)**, aged 53, is an Executive Director, executive president and a member of the Nomination Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010 and was re-designated as an Executive Director on 29 March 2012. He has also served as directors of Hilong Drilling & Supply FZE and Hilong Oil Service and Engineering Nigeria Limited since 2010. Mr. Wang has over 28 years of management experience in the petroleum industry, and served as the vice general manager of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2006 to February 2012 and has served as the executive president of it since February 2012. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991 and was responsible for on-site operation and business administration. From 1991 to 2001, Mr. Wang served as the assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

*Note:* (1) Mr. LEE Siang Chin resigned as an Independent Non-executive Director with effect from 24 March 2017
(2) Mr. WONG Man Chung Francis was appointed as an Independent Non-executive Director with effect from 24 March 2017

## Non-executive Directors

**Ms. ZHANG Shuman (張姝嫚)**, aged 43, is a Non-executive Director, chief strategy officer and a member of the Audit Committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. She was re-designated as a Non-executive Director of the Company on 29 March 2012. She also served as the joint company secretary of the Company from 10 February 2011 to 24 March 2017. Ms. Zhang has over 20 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003. Ms. Zhang is primarily responsible for the financing activities and strategic investment activities of the Group. She has been a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. From 2003 to 2006, Ms. Zhang acted as the joint secretary to the board of directors and coordinator of a China joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the sister of Mr. ZHANG Jun, Executive Director, chairman of the Board, chief executive officer and substantial and controlling shareholder of the Company.

**Mr. YUAN Pengbin (袁鵬斌)**, aged 58, is a Non-executive Director and a member of the Remuneration Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010. He has served as the chairman of the Board of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) since 2005, the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所) since 2006, the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 2011 and a secretary of the party committee of Hilong Group of Companies Ltd. since July 2013. He has over 33 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011, and served as a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特（山西）石油管道塗層有限公司) from 2008 to 2012. Although Mr. Yuan holds managerial positions in our subsidiaries, his role at the Company level is limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Center (中國石油天然氣集團公司石油管材研究所) from 1983 to 2005 and acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司). Mr. Yuan received a Bachelor's degree in Engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a Doctoral degree in Engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer (professor level) in heat treatment. Mr. Yuan is the vice president of the Association for Science and Technology of Bao Shan District, Shanghai, the member of the Association for Science and Technology of Shanghai, the deputy to the National People's Congress of Shanghai and the director of the Petroleum Pipeline Engineering Center of Shanghai (上海市石油管工程中心). Mr. Yuan had been elected as the technological talent and the leadership talent of the sixth session and the seventh session of Bao Shan District, Shanghai in 2010 and 2013, respectively, and had been elected as the leadership talent of Shanghai in 2011. He was also the member of the National Testing Machine Standards and Technology Committee (全國試驗機標準化技術委員會) and the Failure Analysis Committee of Chinese Mechanical Engineering Society (中國機械工程學會失效分析委員會). He enjoyed the special subsidy from the State Council of the People's Republic of China in 2012.

**Mr. LI Huaiqi (李懷奇)**, aged 67, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 26 August 2011. Mr. Li started to provide commercial and business consultation to the Company in 2012. He is a Senior Economist and is also the President of Chinese National Committee of World Petroleum Council. Mr. Li had been the Vice Chairman of the Listed Companies Association of Beijing. He was the Deputy Director-General of Advisory Center and Advisor of Expert Committee in China National Petroleum Corporation ("CNPC"). Mr. Li has over 40 years of experience in China's oil and natural gas industry. He had worked at Daqing Oilfield, Liaohe Oilfield, Huabei Oilfield of CNPC and Nanhai East Corporation of China National Offshore Oil Corporation ("CNOOC"). In 1984, Mr. Li served as Deputy Director-General of the President's Office of Nanhai East Corporation of CNOOC. From 1985 to 1990, he served as the Director of Secretariat of Ministry of Petroleum Technology. From August 1990 to March 1992, he studied at the College of Economy of Texas A&M University in the United States. He was also the head of the First CNPC Senior Management's Training Class from August 1991 to February 1992. From June 1992 to October 2001, he has served as the Deputy Director-General and Director-General of the International Cooperation Department of CNPC. From August 2001 to June 2009, he was appointed as the Secretary to the Board of PetroChina Company Limited. From June 2009 to April 2011, he was the Deputy Director-General of Advisory Center and Advisor of Project Committee in CNPC. He has held the current position as the President of Chinese National Committee of World Petroleum Council since July 2011. In 2008, he was named as "Top 100 Secretaries to the Board" of Chinese Listed Companies by Securities Times. In 2009, he received the awards of "Secretary to the Board of Golden Governance Social Responsibility Companies" by Shanghai Securities News and "Best Secretary to the Board Award" in the 9th Top 100 Chinese Listed Companies Summit hosted by Warton Economic Institute. He was also selected as the "Excellent Secretary to the Board" in the annual appraisal for 2008–2009 by the Shanghai Stock Exchange.

**Mr. YANG Qingli (楊慶理)**, aged 60, is a Non-executive Director of the Company. He was appointed as Non-executive Director on 21 August 2015. Mr. Yang is a Senior Engineer of Professor level. He has over 34 years of experience in operation technologies, practices and management of petroleum engineering. Mr. Yang started his career in 1982 when he joined Changqing Oilfield as a technician of the drilling team. In 1984, he became the deputy manager of No. 2 Drilling Company of Changqing Petroleum Exploration Bureau (長慶石油勘探局第二鑽井公司) and was mainly in charge of technology, production and operation. In 1998, he served as the assistant to the director of Changqing Petroleum Exploration Bureau (the "Bureau") where he assisted in managing the Bureau's business operation. From 2000 to 2005, Mr. Yang served as the deputy director and Party Committee Secretary of the Bureau, and was in charge of production, safety management, human resources and stability management. During 2005 to 2008, he served as the director of marketing management department and the director of engineering technology and marketing department of China National Petroleum Corporation ("CNPC"), respectively. From 2008 to February 2015, Mr. Yang was the general manager of CNPC Technical Service Company (中國石油天然氣集團公司工程技術分公司) where he was directly in charge of the technology research and development as well as operation and business management of geophysical exploration, drilling, testing, logging, borehole operation and fracturing operated by CNPC. Mr. Yang graduated from East China Petroleum Institute (華東石油學院) (currently known as China University of Petroleum) with a Bachelor's degree in drilling in 1982, and obtained a Doctoral degree in oil-and-gas well engineering from China University of Petroleum in 2008.

## Independent Non-executive Directors

**Mr. WANG Tao (王濤)**, aged 70, is an Independent Non-executive Director, the chairman of the Remuneration Committee, the chairman of the Nomination Committee and a member of the Audit Committee of the Company. He was appointed as an Independent Non-executive Director on 2 December 2010. Mr. Wang has over 46 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械工業部5214廠) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and the general manager, chairman and senior engineer of professor level of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備（集團）總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院, now known as Xidian University) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

**Mr. LEE Siang Chin (resigned on 24 March 2017)**, aged 68, was an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company up to 24 March 2017. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Lee has over 40 years of experience in the provision of finance consultancy services for companies in Malaysia, London, Australia and Hong Kong. Mr. Lee serves as an Independent Non-executive Director for Maybank Investment Bank Berhad, Star Publications (Malaysia) Berhad (a company listed on the Malaysian Stock Exchange) and Value Partners Group Limited (a company listed on The Stock Exchange of Hong Kong Limited). Mr. Lee has been appointed as an Independent Director and a Member of the Audit Committee of Maybank Kim Eng Securities (Thailand) Public Company Limited (a company listed on the Stock Exchange of Thailand) with effect from 1 August 2016. Mr. Lee had previously served as chairman and managing director of Surf88.Com Sdn. Bhd. from 1999 to 2004, managing director of AmSecurities Sdn. Bhd. from 1986 to 1999, and an Independent Non-executive Director of Tune Insurance Malaysia Berhad from July 2013 to April 2016, and he also had worked in corporate finance of leading investment banks in London, Sydney and Kuala Lumpur. He had held various public offices and had served as a board member of the Kuala Lumpur Stock Exchange from 1987 to 1988, president of the Association of Stock Broking Companies in Malaysia from 1997 to 1999, and a director of the Social Security Organisation of Malaysia and a member of its investment panel from 2007 to 2015. Mr. Lee is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Certified Public Accountants.

**Mr. LIU Haisheng (劉海勝)**, aged 70, is an Independent Non-executive Director and a member of the Nomination Committee of the Company. He was appointed as an Independent Non-executive Director on 21 December 2012. Mr. Liu is a senior economist of professor level and an expert enjoying State Council special allowance. He is a party member of the Communist Party of China. Mr. Liu served as the office director of the Second Machinery Factory of China National Petroleum Corporation ("CNPC") Changqing Oil Field, the director of workshop, deputy factory director and factory director of the First Machinery Factory of Huabei Oil Field, the deputy director and director of Huabei Petroleum Administration Bureau, and the director of Planning Department and assistant to general manager of CNPC Group. He was a deputy to the 8th People's Congress of Hebei Province and a deputy to the 9th National People's Congress. Mr. Liu has over 46 years of experience in the petroleum industry and is expertise in machinery manufacturing, exploration and exploitation of oil fields, manufacturing and operation management of petrochemical enterprises. He has a high level of knowledge of macro economy. Mr. Liu graduated from Beijing Institute of Petroleum in 1970.

**Mr. WONG Man Chung Francis (黃文宗先生)**, aged 52, is an Independent Non-executive Director and the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He was appointed as an Independent Non-executive Director on 24 March 2017. He is currently an independent non-executive director of a number of companies whose shares are listed on The Stock Exchange of Hong Kong Limited including China Oriental Group Company Limited (stock code: 581), Wai Kee Holdings Limited (stock code: 610), Integrated Waste Solutions Group Holdings Limited (stock code: 923), Greenheart Group Limited (stock code: 94), Digital China Holdings Limited (stock code: 861) and GCL-Poly Energy Holdings Limited (stock code: 3800). He holds a master's degree in management from the Guangzhou Jinan University (廣州暨南大學) in the People's Republic of China. Mr. Wong is a fellow member of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants, a Certified Tax Advisor of the Taxation Institute of Hong Kong and a member of the Society of Chinese Accountants and Auditors. He is a senior Certified Public Accountant (Practising) and has over 28 years of experience in auditing, taxation, management and financial advisory matters. Mr. Wong previously worked at KPMG, an international accounting firm, for over six years and Hong Kong Securities Clearing Company Limited for one year and ten months.

## SENIOR MANAGEMENT

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

**Mr. CHEN Su (陳甦)**, aged 58, has been a director of Hilong Oil Service and Engineering Co., Ltd. since 2008. Mr. Chen has over 34 years of experience in the petroleum industry. From 1982 to 2005, he worked in the department of steel pipe manufacturing of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司) and served as its branch factory manager, deputy general manager and general manager. In 2005, he also served as the deputy general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). Mr. Chen received a Bachelor's degree in Engineering from Shanghai University of Technology (上海工業大學) in 1982.

**Mr. DAI Daliang (代大良)**, aged 50, has been a director of Hilong Drilling & Supply FZE since 2010, a director of Hilong Oil Service and Engineering Nigeria Limited since 2010 and a director and the general manager of Hilong Oil Service and Engineering Co., Ltd. since 2008. Mr. Dai has over 27 years of experience in the petroleum industry. Prior to joining the Group, from 1989 to 1995, Mr. Dai worked as an engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司) and was engaged in the drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司) and was engaged in the international drilling cooperation. From 1996 to 2008, he worked for Greatwall Drilling Company Limited (中油長城鑽井有限公司) as its co-manager of the marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by Greatwall Drilling Company Limited. In 2008, he worked as an assistant to the general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's degree in Engineering from Central South University of Technology in 1990 and a Doctorate degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

**Mr. CAO Yuhong (曹育紅)**, aged 47, has been the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 25 years of experience in the petroleum industry. Prior to joining the Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau and served as its deputy manager of the coating branch in 1996. Mr. Cao received a Bachelor's degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學), in 1991.

**Mr. GAO Zhihai (高智海)**, aged 47, has been the chairman and general manager of Shanghai Boteng Welding Consumable Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 21 years of experience in the petroleum industry. Prior to joining the Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received a Bachelor's degree in Engineering from Southwest Petroleum University (西南石油學院) in 1992 and a Master's degree in Engineering in 1995. Mr. Gao was named an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

**Mr. XUE Zhijun (薛志軍)**, aged 53, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司). Mr. Xue has over 12 years of experience in the petroleum industry. Prior to joining the Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as deputy manager of First Machinery Factory of CNPC Bohai Petroleum Equipment Manufacturing Company Limited (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded the "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction" (國家西氣東輸工程建設先進個人) by the National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and the "Outstanding Entrepreneur in Hebei Province "(河北省優秀企業家) by the Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

**Mr. XIAO Long (肖龍)**, aged 55, has been the general manager of Hilong Marine Engineering (Hong Kong) Limited since January 2014. Mr. Xiao has over 31 years of experience in the petroleum industry. Prior to joining the Group, from 1985 to 2012, Mr. Xiao worked at China National Offshore Oil Corporation (中國海洋石油總公司) and its subsidiaries (collectively "CNOOC") in the fields of construction project management and production management for offshore oil and gas field development projects. He also obtained certificates of senior engineer and general manager for ultra-large-scale projects issued by CNOOC. During his employment with CNOOC, Mr. Xiao served various positions including engineering supervisor, platform department manager, deputy principal project manager and principal project manager, and successfully managed the construction project management of a number of large-scale offshore projects for CNOOC. From 2012 to 2013, he served as vice president of Rongsheng Offshore & Marine Pte. Ltd., Singapore (熔盛海事有限公司) and general manager of Jiangsu Rongsheng Offshore Engineering Co., Ltd. (江蘇熔盛海洋工程有限公司), and was mainly engaged in project management for construction of offshore vessels and equipment. Mr. Xiao graduated from Guangdong Mechanics Institute (廣東機械學院), now known as Guangdong University of Technology (廣東工業大學), with a Bachelor's degree in Engineering in 1985.

**Mr. CHEN Yong (陳勇)**, aged 43, is the chief financial officer of the Company. After joining the Group in August 2008, Mr. Chen served in various positions in Hilong Group of Companies Ltd. including finance controller, audit supervisor, assistant to the president and internal control director. He was appointed as the chief financial officer of the Company in 2016. As chief financial officer, Mr. Chen is responsible for overall financial and corporate finance management. Mr. Chen received a Master's degree in Economics from Shanghai University of Finance and Economics (上海財經大學). He is a member of the Chinese Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants of the United Kingdom (FCCA), and has obtained the Legal Professional Qualification Certificate (法律職業資格證書) of the PRC.

The Board of Directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2016.

The Company has adopted the Corporate Governance Code (the "CG Code") as contained in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance. The Company has applied the principles set out in the CG Code during the year under review. The manner in which the principles and code provisions in the CG Code are applied and implemented during the year ended 31 December 2016 (the "year") is explained in this Corporate Governance Report.

## CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code throughout the year except for the deviation from code provision A.2.1 which is explained in the relevant paragraph of this Corporate Governance Report.

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

## BOARD OF DIRECTORS

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

The Board of the Company currently comprises the following Directors:

| | Ethnicity (Nationality) | Age | Length of Service (Since) |
|---|---|---|---|
| **Executive Directors:** | | | |
| Mr. Zhang Jun *(Chairman and Chief Executive Officer)* | Chinese | 49 | 2001 |
| Mr. Wang Tao (汪濤) *(Executive President)* | Chinese | 53 | 2006 |
| **Non-executive Directors:** | | | |
| Ms. Zhang Shuman *(Chief Strategy Officer)* | Chinese | 43 | 2008 |
| Mr. Yuan Pengbin | Chinese | 58 | 2005 |
| Mr. Li Huaiqi | Chinese | 67 | 2011 |
| Mr. Yang Qingli | Chinese | 60 | 2015 |
| **Independent Non-executive Directors:** | | | |
| Mr. Wang Tao (王濤) | Chinese | 70 | 2010 |
| Mr. Lee Siang Chin(1) | Malaysian | 68 | 2010 |
| Mr. Liu Haisheng | Chinese | 70 | 2012 |
| Mr. Wong Man Chung Francis(2) | Chinese | 52 | 2017 |

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

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

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

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

### Chairman and Chief Executive Officer

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

The roles of Chairman and Chief Executive Officer of the Company 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.

The Board shall review its structure from time to time to ensure appropriate and timely action to meet changing circumstances.

## Independent Non-executive Directors

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

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

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

## Terms of Directors

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

## Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

### Continuing Professional Development of Directors

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

Each newly appointed Director will receive comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

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

During the year, relevant reading materials relating to Environmental, Social and Governance Reporting were provided to Directors, namely Mr. Zhang Jun, Mr. Wang Tao (汪濤), Ms. Zhang Shuman, Mr. Yuan Pengbin, Mr. Li Huaiqi, Mr. Yang Qingli, Mr. Wang Tao (王濤), Mr. Lee Siang Chin and Mr. Liu Haisheng for their reference and studying.

## BOARD COMMITTEES

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

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

### Audit Committee

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

During the year, the Audit Committee held three meetings to review the annual financial results and report in respect of the year ended 31 December 2015, interim financial results and report in respect of the six months ended 30 June 2016, the unaudited consolidated financial statements for the nine months ended 30 September 2016, and significant issues on the financial reporting and compliance procedures, risk management system and internal control system, relationship with auditors including the remuneration, terms of engagement, independence and re-appointment of auditors, non-exempt continuing connected transactions, arrangements for employees to raise concerns about possible improprieties, and to evaluate and assess the effectiveness of the Audit Committee and the adequacy of the terms of reference of the Audit Committee and consider whether any update or amendment is required.

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

### Remuneration Committee

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

During the year, the Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the Directors and senior management and other related matters, and to evaluate and assess the effectiveness of the Remuneration Committee and the adequacy of the terms of reference of the Remuneration Committee and consider whether any update or amendment is required.

### Nomination Committee

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

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

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

During the year, the Nomination Committee met once to review the structure, size, composition and diversity of the Board, the "Board Diversity Policy" and consider whether any update or amendment is required, the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the Annual General Meeting, and to evaluate and assess the effectiveness of the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required.

### Corporate Governance Functions

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

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

## ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

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

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

(1) Resigned with effect from 24 March 2017

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

## DIRECTORS' RESPONSIBILITIES FOR PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 60 to 64 of this annual report.

## AUDITOR'S REMUNERATION

During the year ended 31 December 2016, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

| Service Category | Fees Paid/ Payable RMB'000 |
|---|---|
| Audit Services | 3,500 |
| Non-audit Services | |
| – Tax services | 247 |
| – Other non-audit services | 620 |
| Total | 4,367 |

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

Management has reported and confirmed to the Audit Committee and the Board that the relevant systems have been effective for the year ended 31 December 2016 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management and internal control systems are effective.

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

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

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

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

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

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

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

### Risk Identification

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

### Risk Assessment

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

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

### Risk Response

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

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

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

### Risk Monitoring and Reporting

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

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

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

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

### Internal Audit Function

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

### Company Inside Information Management

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

## COMPANY SECRETARY

Ms. Cheng Pik Yuk of Tricor Services Limited, an external service provider, has been engaged by the Company as its joint company secretary. The primary contact persons at the Company are Ms. Zhang Shuman (Non-executive Director and Chief Strategy Officer) and Mr. Delphi Bao Zhikan (General Counsel). During the year, our joint company secretaries, Ms. Zhang Shuman(1) and Ms. Cheng Pik Yuk, have undertaken over 15 hours of professional training to update their skills and knowledge.

(1) Ms. Zhang Shuman resigned as joint company secretary with effect from 24 March 2017.

## SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

# REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Group is an integrated oil field equipment and services provider with a focus on oil field services, line pipe technology services, oil field equipment manufacturing and services and offshore engineering services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated financial statements of this annual report.

## BUSINESS REVIEW

### Overview and performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial key performance indicators is provided in the Management's Discussion and Analysis section on pages 5 to 24 of this annual report. Such section constitutes part of this directors' report.

### Environmental Policies and Performance

Our production processes primarily involve the manufacture and assembly of components and we do not operate in a highly-polluted industry. Our operations in the PRC are subject to a number of environmental laws and regulations including the Environmental Protection Law, Air Pollution Prevention Law, Water Pollution Prevention Law and its Implementing Regulations, Rules on the Administration concerning Environmental Protection of Construction Projects, Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects, etc. Pursuant to such laws and regulations, the discharge and disposal of contaminants, toxic and hazardous materials, including manufacturer's waste water, solid waste and waste gases, must comply with the applicable national and local standards. For the year ended 31 December 2016, the Group has been committed to complying with such applicable standards and the aforesaid environmental protection laws and regulations. Further, the Group did not incur any material cost in complying with such laws and regulations during the reporting period.

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

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

Our operations involve welding, handling of heavy machinery and components and hazardous chemicals. As a result, our employees may face the risk of various work-related injuries and accidents. We are subject to relevant rules and regulations on occupational health and safety such as the Safe Production Law, Law of the PRC on the Prevention and Treatment of Occupational Diseases, and Regulations on the Reporting, Investigation and Handling of Work Safety Accidents. We have established HSE and safety production policies and management system to ensure that all parts of our operations are in compliance with existing laws and regulations on occupational, safety and health. In addition, several subsidiaries of the Group have obtained certifications from American Bureau of Shipping (ABS) and Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) that their health and safety management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of certain international standards in relation to occupational, health and safety system such as the OHSAS 18001. Also, Hilong's safety management system of the pipe-laying and derrick vessel, Hilong 106, has been certified by ABS that it has complied with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention. For the year ended 31 December 2016, there had been no instance of major work related injuries or casualties which could have a material and adverse impact upon our business and operations.

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

## Compliance with relevant Laws and Regulations

For the year ended 31 December 2016, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impact on the Group.

On environmental matters, occupational health and safety, the Group is subject to various laws and regulations in relation to environmental protection and workplace safety. As mentioned in the section headed "Environmental Policies and Performance" above, for the year ended 31 December 2016, the Group has been committed in complying with the applicable standards on discharge and disposal of contaminants, toxic and hazardous materials and the applicable environmental protection laws and regulations. Regarding production safety, the Group has policies and measures in place to prevent and eliminate occupational damages and ensure safe production environment including (i) designating staff to be responsible for managing production safety; (ii) providing relevant employees of appropriate safety classes and training to ensure they possess the required knowledge and management skills on production safety; (iii) erecting appropriate safety signage on dangerous equipment and installations; (iv) ensuring safety-related equipment comply with national or industry standards; and (v) formulating emergency response plan for occupational diseases and accidents.

Our business involves production of hazardous chemicals and production, usage, and inspection of special equipments such as pressure pipelines. We are required by the relevant laws and regulations such as Regulations on the Administration of Permits for the Production of Industrial Products and Regulation to obtain production permits from designated authorities before manufacturing such products and equipments. For the year ended 31 December 2016, the Group obtained necessary production permits from the relevant authorities before commencing the production of hazardous chemical and special equipments.

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

On taxation, the Group is subject to various taxation. Details of such taxes and compliance of the Group with such applicable tax laws are set out in note 27 to the consolidated financial statements of this annual report.

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

## KEY RELATIONSHIPS WITH STAKEHOLDERS

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

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

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

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

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

## KEY RISKS AND UNCERTAINTIES

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

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

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

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

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

### Prospects

The prospects of the Group is provided in the Chairman's Statement on pages 2 to 3 and in the Management Discussion and Analysis section on pages 5 to 23 of this annual report.

### Subsequent Events

Please refer to note 36 to the consolidated financial statements for details of the significant events after the reporting period of the Group.

## DIVIDEND

During the year ended 31 December 2016, a final dividend of HK2.0 cents per share, amounting to a total dividend of approximately HK$33.9 million (equivalent to approximately RMB29.0 million) for the year ended 31 December 2015, was paid to the shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK1.0 cent per share, amounting to approximately HK$17.0 million (equivalent to approximately RMB15.2 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2016, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company ("AGM"). Upon approval of the shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on Tuesday, 11 July 2017 to the shareholders of the Company whose names appear on the register of members of the Company as at Thursday, 29 June 2017.

## RESERVES

Details of movement in the reserves of the Company and the Group for the year ended 31 December 2016 are set out in notes 18 and 37 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2016, the reserves of the Company available for distribution to shareholders amounted to RMB1,193.6 million (2015: RMB1,215.1 million).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate revenue from sales of goods or rendering of services attributable to the Group's largest customer and five largest customers were 6.5% and 26.0% of the Group's total revenue from sales of goods or rendering of services respectively (2015: 23.7% and 46.7%). The aggregate purchases attributable to the Group's largest supplier and five largest suppliers were 4.0% and 13.5% of the Group's total purchases respectively during the year under review (2015: 4.3% and 14.7%).

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

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2016 are set out in note 19 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## ISSUED SHARES

Details of and reasons for movements in the total issued shares of the Company during the year under review are set out in note 17 to the consolidated financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 144 of this annual report.

## PRE-EMPTIVE RIGHTS

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

## DIRECTORS

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

### Executive Directors

Mr. Zhang Jun (張軍)
Mr. Wang Tao (汪濤)

### Non-executive Directors

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

### Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Lee Siang Chin [(1)]
Mr. Liu Haisheng (劉海勝)
Mr. Wong Man Chung Francis [(2)]

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

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

Ms. Zhang Shuman, Mr. Yuan Pengbin and Mr. Li Huaiqi will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with Article 84 of the Articles and pursuant to Appendix 14 of the Listing Rules, whereas Mr. Wong Man Chung Francis will retire as Director at the forthcoming AGM of the Company pursuant to Article 83(3) of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

## DIRECTORS' SERVICE CONTRACTS

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

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

## EMOLUMENT POLICY

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

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

As at 31 December 2016, the total number of full-time employees of the Group was 2,608 (31 December 2015: 2,632). Employee costs excluding the Directors' remuneration totalled RMB395,964,000 for the year of 2016. The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

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

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

Details of Directors' remuneration are set out in note 24 to the consolidated financial statements.

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2016 were within the following bands:

| | Number of Senior Management |
|---|---|
| HK$1,000,001 to HK$1,500,000 | 4 |
| HK$1,500,001 to HK$2,000,000 | 3 |
| | 7 |

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, as at 31 December 2016 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

## CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance in relation to the Group's business was entered into between the Company, or any one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2016.

## DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles, the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2016 which is still in force.

## MANAGEMENT CONTRACTS

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

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

## EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements subsisting at the end of the year are set out below. Other than the below share option schemes, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2016.

## PRE-IPO SHARE OPTION SCHEME

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

### (a) Purpose

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

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

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

### (b) Who may join

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

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

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

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

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

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

### (c) Maximum number of Shares

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

### (d) Subscription price

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

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

The grantees to whom options has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date of listing of the shares of the Company on the Main Board of the Stock Exchange ("Listing Date") and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period, which must not be more than 10 years from the Listing Date. Therefore, as at 31 December 2016, the remaining life of the Pre-IPO Scheme was approximately four years and three months.

## (f) Expiry of option

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

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

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

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

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

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

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

| Category/ name of grantees | Outstanding as at 1 January 2016 | Granted during the year | Exercised during the year | Cancelled/ lapsed during the year | Outstanding as at 31 December 2016 | Exercise price HK$ | Weighted average closing price immediately before exercise HK$ | Date of grant | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| Mr. Zhang Jun | 600,000 | – | – | – | 600,000 | 2.60 | – | 1 January 2011 | 21 April 2012– 31 December 2020 |
| Ms. Zhang Shuman | 600,000 | – | – | – | 600,000 | 2.60 | – | 1 January 2011 | 21 April 2012– 31 December 2020 |
| Mr. Yuan Pengbin | 2,150,000 | – | – | – | 2,150,000 | 2.60 | – | 1 January 2011 | 21 April 2012– 31 December 2020 |
| Mr. Wang Tao (汪濤) | 2,150,000 | – | – | – | 2,150,000 | 2.60 | – | 1 January 2011 | 21 April 2012– 31 December 2020 |
| In aggregate | 5,500,000 | – | – | – | 5,500,000 | | | | |
| **Employees of the Group other than Directors** | | | | | | | | | |
| In aggregate | 25,243,900 | – | – | (1,569,600) | 23,674,300 | 2.60 | 2.92 | 1 January 2011 | 21 April 2012– 31 December 2020 |
| Total | 30,743,900 | – | – | (1,569,600) | 29,174,300 | | | | |

## POST-IPO SHARE OPTION SCHEME

The Company adopted a Post-IPO share option scheme (the "Post-IPO Scheme") on 10 May 2013. The remaining life of the Post-IPO Scheme is approximately six years and five months as at 31 December 2016. The following is a summary of the principal terms of the Post-IPO Scheme:

### (a) Purpose

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

### (b) Who may join

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

### (c) Maximum number of shares

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

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

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

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

### (e) Subscription price

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

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

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

### (g) Expiry of option

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

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

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

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

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

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

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

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

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

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

On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share.

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

| Category/ name of grantees | Outstanding as at 1 January 2016 | Granted during the year | Exercised during the year | Cancelled/ lapsed during the year | Outstanding as at 31 December 2016 | 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 | 18,060,300 | – | – | (839,100) | 17,221,200 | 5.93 | 5.72 | – | 5 February 2014 | 5 February 2015 – 4 February 2024 |

## DISCLOSURE OF INTERESTS

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

As at 31 December 2016, 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% |

*Notes:*

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

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

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

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

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

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

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

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

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

As at 31 December 2016, 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 | 136,941,000 (4) | 8.07% |

*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) 113,498,000 shares are held by Wellington Management International 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"). 23,443,000 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.

## CONTINUING CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2016 is contained in note 34 to the consolidated financial statements. The transactions between the Group and Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) as described in note 34 fall under the definition of continuing connected transactions under Chapter 14A of the Listing Rules, and also constitute related party transactions of the Group as disclosed on page 134 of this annual report. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

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

### Lease of Office Premises by Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) to Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司)

On 28 February 2011, Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) ("Beijing Huashi Investment"), as landlord, entered into a tenancy agreement (the "2011–2013 Tenancy Agreement") with Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) ("Hilong Oil Service"), the Company's subsidiary, as tenant, under which Beijing Huashi Investment agreed to lease to Hilong Oil Service the office premises in Beijing with a gross floor area of 1,543.97 square meters for a term commencing from 28 February 2011 and ending on 31 December 2013, subject to renewal. On 30 December 2013, Hilong Oil Service, as tenant, entered into another tenancy agreement (the "Original 2014-2016 Tenancy Agreement") with Beijing Huashi Investment, as landlord, to renew the lease under the 2011–2013 Tenancy Agreement for a term of three years from 1 January 2014 to 31 December 2016 upon expiry of the 2011-2013 Tenancy Agreement on 31 December 2013.

On 18 March 2016, Beijing Huashi Investment, as landlord, and Hilong Oil Service, as tenant, entered into a supplemental agreement to the Original 2014-2016 Tenancy Agreement (together with the Original 2014-2016 Tenancy Agreement, the "2014-2016 Tenancy Agreements") pursuant to which the parties agreed that the total leasing area of the office premises increased from a gross floor area of 1,543.97 square meters to 1,850.32 square meters with effect from 18 March 2016 and, as a result of the increase in the total leasing area, the monthly rental increased from RMB463,348.62 to RMB555,284.89 with effect from 18 March 2016.

As at 31 December 2016, Mr. Zhang Jun (張軍), the controlling shareholder and director of the Company, holds 95.65% of the interest in Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("Huashi Hailong"), which in turn holds 98% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. Zhang and a connected person of the Company. The leases under the 2014-2016 Tenancy Agreements therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules.

In view of the increase in total leasing area agreed under the 2014-2016 Tenancy Agreements, the Directors expected that the original annual cap for 2016 in the amount of RMB5,560,183 would not be sufficient and therefore revised the annual cap for 2016 to RMB6,430,681. As such, the annual caps for the lease under the 2014-2016 Tenancy Agreements for the three years ending 31 December 2014, 2015 and 2016 are RMB5,241,006, RMB5,398,236 and RMB6,430,681 respectively. The revised annual cap was determined with reference to (i) the increase in the total leasing area leased by Hilong Oil Service; (ii) the rental level of such increase of leasing; and (iii) the prevailing market rate for comparable premises.

Given that each of the applicable percentage ratios (other than the profits ratio) under Chapter 14 of the Listing Rules is on an annual basis more than 0.1% but less than 5%, the transactions under the 2014-2016 Tenancy Agreements are exempt from the shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

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

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

(ii) on normal commercial terms or better; and

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

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

The 2014-2016 Tenancy Agreements expired on 31 December 2016. On 28 December 2016, Beijing Huashi Investment, as landlord, entered into three new tenancy agreements with Hilong Oil Service, as tenant.

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

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

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

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

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

### A. Facility Agreement dated 16 September 2013

On 16 September 2013, the Company as borrower entered into a facility agreement (the "2013 Facility Agreement") with, amongst others, certain of its offshore subsidiaries as guarantors, Deutsche Bank AG, Singapore branch and The Hongkong and Shanghai Banking Corporation Limited as mandated lead managers and bookrunners, and a group of financial institutions as lenders, in relation to a dual-currency term loan facility divided into two tranches: (i) a US dollar term loan facility in the amount of US$147,250,000; and (ii) a Hong Kong dollar term loan facility in the amount of HK$408,812,500, with final maturity of 36 months after the date of the 2013 Facility Agreement and an interest of LIBOR or HIBOR (as the case may be) plus 3.30 per cent. per annum.

The 2013 Facility Agreement contains a specific performance obligation imposed on Mr. Zhang Jun, a controlling shareholder of the Company. Specifically, the 2013 Facility Agreement requires Mr. Zhang Jun to continue to (i) to maintain, directly or indirectly, not less than 55% 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 the chairman of the Board, during the term of the 2013 Facility Agreement. A breach of any of such obligations will constitute an event of default which enables the lenders to cancel all or any part of their respective commitments under the 2013 Facility Agreement immediately and the outstanding amount under the 2013 Facility Agreement together with interest accrued thereon may become immediately due and payable. In April 2014, the Company obtained consent from the majority lenders to lower the minimum requirement of the beneficial shareholding interest of Mr. Zhang Jun in relation to (i) above from 55% to 50%.

As at 31 December 2016, the Group had fully repaid the loan.

### B. Facility Agreement dated 28 April 2014

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

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

As at 31 December 2016, the Group had fully drawn down the aforementioned facility, out of which USD22,200,000 and HKD60,450,000 had been repaid during 2016. The remaining principals are fully repayable in 2017 and 2018, respectively.

### C. Facility Agreement dated 30 July 2015

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

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

As at 31 December 2016, the Group had fully drawn down the aforementioned facility. These loan principals will be fully repayable in 2017 and 2018, respectively.

## SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

The Controlling Shareholders have confirmed their compliance with the non-competition undertakings under the Deed throughout the year of 2016. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders and are satisfied that the Controlling Shareholders have complied with the undertakings.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2016, except that in respect of code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. Zhang Jun, details of which are further explained in the Corporate Governance Report on pages 31 to 39 of this annual report.

## AUDITOR

The financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers, certified public accountants. A resolution for re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
**Zhang Jun**
*Chairman*

Hong Kong, 24 March 2017

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

## OPINION

### What we have audited

The consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 143, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

### Independence

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

## KEY AUDIT MATTERS

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

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Trade receivables impairment assessment** | |
| Refer to Note 4 (Critical accounting estimates and judgements) and Note 14 (Trade and other receivables) to the consolidated financial statements<br><br>As at 31 December 2016, the gross carrying amount of trade receivables of the Group was approximately RMB1,657 million, and a provision for impairment of approximately RMB34 million was recorded. Gross trade receivables aged more than one year as at 31 December 2016 amounted to approximately RMB664 million.<br><br>We focused on this area because of the significant judgements involved in determining the impairment provision of the Group's trade receivables, mainly attributable to the recent global fluctuation of oil and gas prices, the significance of the trade receivables balance and the outstanding balances that were aged more than one year, and the fact that its customers are located in different countries. | We understood and evaluated management's policies, processes and controls over the Group's assessment process in relation to the recoverability of trade receivables balance and its estimation process for determining impairment provision of trade receivables.<br><br>As part of our risk assessment in this area, we compared the relevant receivables balances brought forward from the prior year against the results of management's impairment assessment made in the prior year to consider, with hindsight, whether management's impairment assessment estimation process had been subject to management bias.<br><br>Our work on assessing the impairment provision for trade receivables in the current year included:<br><br>– testing the reliability of the ageing report;<br>– confirming on a targeted basis significant balances with customers;<br>– testing on a scope basis the accuracy of management's ageing analysis of receivable balances;<br>– obtaining management's assessment of the collectability (both amount and timing) of individually significant balances, especially those that were aged more than one year, and corroborating management's assessment against available evidences, including interviewing with sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to the existence of disputes with customers; |

## KEY AUDIT MATTERS (continued)

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

## OTHER INFORMATION

The directors of the Company are responsible for the other information as set out in the Company's 2016 annual report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 24 March 2017

# CONSOLIDATED BALANCE SHEET

*As at 31 December 2016*

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *6* | **3,139,744** | 3,037,789 |
| Lease prepayments | *7* | **88,567** | 90,694 |
| Intangible assets | *8* | **173,581** | 156,355 |
| Investments accounted for using equity method | *9* | **57,615** | 59,221 |
| Deferred income tax assets | *11* | **143,198** | 131,144 |
| Other long-term assets | *10* | **4,313** | 1,563 |
| | | **3,607,018** | 3,476,766 |
| **Current assets** | | | |
| Inventories | *13* | **798,759** | 804,194 |
| Trade and other receivables | *14* | **2,040,171** | 1,857,619 |
| Current income tax recoverable | | **39,768** | 32,588 |
| Restricted cash | *15* | **155,036** | 71,868 |
| Cash and cash equivalents | *15* | **657,422** | 821,364 |
| | | **3,691,156** | 3,587,633 |
| **Total assets** | | **7,298,174** | 7,064,399 |
| **EQUITY** | | | |
| **Capital and reserve attributable to equity owners of the Company** | | | |
| Ordinary shares | *17* | **141,976** | 141,976 |
| Other reserves | *18* | **1,133,443** | 1,127,528 |
| Currency translation differences | | **15,277** | (117,445) |
| Retained earnings | | **1,963,797** | 1,869,990 |
| | | **3,254,493** | 3,022,049 |
| **Non-controlling interests** | | **237,385** | 234,087 |
| **Total equity** | | **3,491,878** | 3,256,136 |

| | | As at 31 December | |
|---|---|---|---|
| | *Note* | **2016 RMB'000** | 2015 RMB'000 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *19* | **1,317,411** | 1,084,464 |
| Deferred income tax liabilities | *11* | **44,113** | 45,193 |
| Deferred revenue | *20* | **35,822** | 23,171 |
| | | **1,397,346** | 1,152,828 |
| **Current liabilities** | | | |
| Trade and other payables | *21* | **950,912** | 1,058,234 |
| Current income tax liabilities | | **25,416** | 3,625 |
| Borrowings | *19* | **1,430,678** | 1,592,448 |
| Derivative financial instruments | *16* | **1,097** | 1,006 |
| Deferred revenue | *20* | **847** | 122 |
| | | **2,408,950** | 2,655,435 |
| **Total liabilities** | | **3,806,296** | 3,808,263 |
| **Total equity and liabilities** | | **7,298,174** | 7,064,399 |

The notes on pages 71 to 143 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 65 to 143 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2016*

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **1,929,037** | 2,484,329 |
| Cost of sales | 22 | **(1,262,243)** | (1,674,423) |
| **Gross profit** | | **666,794** | 809,906 |
| Selling and marketing expenses | 22 | **(125,098)** | (109,181) |
| Administrative expenses | 22 | **(311,589)** | (372,813) |
| Other gains – net | 25 | **262,354** | 96,609 |
| **Operating profit** | | **492,461** | 424,521 |
| Finance income | 26 | **8,680** | 9,169 |
| Finance costs | 26 | **(332,810)** | (238,693) |
| Finance costs – net | | **(324,130)** | (229,524) |
| Share of profits of investments accounted for using equity method | 9 | **7,297** | 4,357 |
| **Profit before income tax** | | **175,628** | 199,354 |
| Income tax expense | 27 | **(47,719)** | (25,243) |
| **Profit for the year** | | **127,909** | 174,111 |
| **Profit attributable to:** | | | |
| Equity owners of the Company | | **124,611** | 160,983 |
| Non-controlling interests | | **3,298** | 13,128 |
| | | **127,909** | 174,111 |
| **Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)** | | | |
| Basic earnings per share | 28 | **0.0735** | 0.0949 |
| Diluted earnings per share | 28 | **0.0735** | 0.0949 |
| Dividends | 29 | **15,175** | 28,426 |

The notes on pages 71 to 143 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2016*

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Profit for the year** | **127,909** | 174,111 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss* | | |
| Currency translation differences | **132,722** | 1,364 |
| **Other comprehensive income for the year, net of tax** | **132,722** | 1,364 |
| **Total comprehensive income for the year** | **260,631** | 175,475 |
| **Attributable to:** | | |
| Equity owners of the Company | **257,333** | 162,347 |
| Non-controlling interests | **3,298** | 13,128 |
| | **260,631** | 175,475 |

The notes on pages 71 to 143 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2016*

| | | Capital and reserves attributable to equity owners | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Ordinary shares | Other reserves | Retained earnings | Cumulative Translation differences | Total | Non-controlling interests | Total equity |
| | *Note* | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 1 January 2015** | | 141,972 | 1,117,187 | 1,778,090 | (118,809) | 2,918,440 | 224,809 | 3,143,249 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | – | – | 160,983 | – | 160,983 | 13,128 | 174,111 |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences | | – | – | – | 1,364 | 1,364 | – | 1,364 |
| **Total comprehensive income for the year** | | – | – | 160,983 | 1,364 | 162,347 | 13,128 | 175,475 |
| Appropriation to statutory reserve | *18(a)* | – | 2,158 | (2,158) | – | – | – | – |
| **Transactions with owners** | | | | | | | | |
| Pre-IPO share option plan | *18(b)* | – | 1,254 | – | – | 1,254 | – | 1,254 |
| 2013 Share Option Scheme | *18(b)* | – | 6,834 | – | – | 6,834 | – | 6,834 |
| Exercise of share options | *17(a), 18(b)* | 4 | 95 | – | – | 99 | – | 99 |
| Dividends paid to non-controlling interests of subsidiaries | | – | – | – | – | – | (3,850) | (3,850) |
| Dividends in respect of 2014 | *29* | – | – | (66,925) | – | (66,925) | – | (66,925) |
| **As at 31 December 2015** | | 141,976 | 1,127,528 | 1,869,990 | (117,445) | 3,022,049 | 234,087 | 3,256,136 |
| **As at 1 January 2016** | | **141,976** | **1,127,528** | **1,869,990** | **(117,445)** | **3,022,049** | **234,087** | **3,256,136** |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | **–** | **–** | **124,611** | **–** | **124,611** | **3,298** | **127,909** |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences | | **–** | **–** | **–** | **132,722** | **132,722** | **–** | **132,722** |
| **Total comprehensive income for the year** | | **–** | **–** | **124,611** | **132,722** | **257,333** | **3,298** | **260,631** |
| Appropriation to statutory reserve | *18(a)* | **–** | **1,805** | **(1,805)** | **–** | **–** | **–** | **–** |
| **Transactions with owners** | | | | | | | | |
| Pre-IPO share option plan | *18(b)* | **–** | **140** | **–** | **–** | **140** | **–** | **140** |
| 2013 Share Option Scheme | *18(b)* | **–** | **3,970** | **–** | **–** | **3,970** | **–** | **3,970** |
| Dividends in respect of 2015 | *29* | **–** | **–** | **(28,999)** | **–** | **(28,999)** | **–** | **(28,999)** |
| **As at 31 December 2016** | | **141,976** | **1,133,443** | **1,963,797** | **15,277** | **3,254,493** | **237,385** | **3,491,878** |

The notes on pages 71 to 143 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2016*

| | | Year ended 31 December | |
|---|---|---|---|
| | *Note* | **2016 RMB'000** | 2015 RMB'000 |
| **Cash flow from operating activities** | | | |
| Cash generated from operations | *30(a)* | **321,125** | 682,376 |
| Interest paid | | **(134,513)** | (116,329) |
| Income tax paid | | **(47,290)** | (81,273) |
| **Net cash generated from operating activities** | | **139,322** | 484,774 |
| **Cash flow used in investing activities** | | | |
| Proceeds from disposal of property, plant and equipment | *30(b)* | **37,773** | 3,193 |
| Dividends received | | **4,095** | – |
| Purchases of property, plant and equipment | | **(133,776)** | (238,929) |
| Purchases of intangible assets | *8* | **(2,607)** | (59) |
| **Net cash used in investing activities** | | **(94,515)** | (235,795) |
| **Cash flows (used in)/from financing activities** | | | |
| Proceeds from borrowings | | **1,512,604** | 1,310,869 |
| Repayments of borrowings | | **(1,601,851)** | (1,227,402) |
| Dividends paid to non-controlling interests of subsidiaries | | **–** | (3,850) |
| Proceeds from share options exercised | *18(b)* | **–** | 99 |
| Net cash outflow arising from security deposit for bank borrowings | *19(a)* | **(70,500)** | – |
| Net cash outflow arising from financial instruments | | **(14,314)** | – |
| Dividends paid | *29* | **(28,999)** | (66,925) |
| **Net cash (used in)/generated from financing activities** | | **(203,060)** | 12,791 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(158,253)** | 261,770 |
| Exchange (losses)/gains on cash and cash equivalents | | **(5,689)** | 11,537 |
| Cash and cash equivalents at beginning of the year | | **821,364** | 548,057 |
| **Cash and cash equivalents at end of the year** | | **657,422** | 821,364 |

The notes on pages 71 to 143 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION OF THE GROUP

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

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

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

The consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 24 March 2017.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

### 2.1 Basis of preparation

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

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

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

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016.

- HKFRS 14 "Regulatory Deferral Accounts".
- Amendment to HKFRS 11 "Accounting for acquisitions of interests in joint operation".
- Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortisation".
- Amendment to HKAS 27, "Equity method in separate financial statements".
- Annual improvements 2014, on HKFRS 5, "Non-current assets held for sale and discontinued operations", HKFRS 7, "Financial instruments: Disclosures", HKAS 19, "Employee benefits", HKAS 34, "Interim financial reporting".

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

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

- Amendments to HKFRS 10, HKFRS 12 and HKAS 28, "Investment entities: applying the consolidation exception".

- Amendments to HKAS 1, "Disclosure initiative".

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

#### (b) *New and amended standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements.

- Amendments to HKAS 12, "Income taxes", effective for the accounting period beginning on or after 1 January 2017.

- Amendments to HKAS 7, "Statement of cash flows", effective for the accounting period beginning on or after 1 January 2017.

- 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.

- Amendments to HKFRS 2, "Classification and Measurement of Share-based Payment Transactions", 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.

- 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.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Subsidiaries

#### *2.2.1 Consolidation*

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

*(a) Business combinations*

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Subsidiaries (continued)

#### *2.2.1 Consolidation (continued)*

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

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

(c) *Disposal of subsidiaries*

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

#### *2.2.2 Separate financial statements*

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

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

### 2.3 Associates

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Associates (continued)

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

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

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

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

### 2.4 Joint arrangements

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

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

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

### 2.5 Segment reporting

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

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

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

#### (c) Group companies

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Foreign currency translation (continued)

#### (d) *Disposal of foreign operation and partial disposal*

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

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

### 2.7 Property, plant and equipment

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

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Property, plant and equipment (continued)

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

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

### 2.8 Lease prepayments

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

### 2.9 Intangible assets

***(a) Goodwill***

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

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

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

***(b) Computer software***

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

***(c) Proprietary technologies***

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

### 2.10 Impairment of non-financial assets

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Financial assets

**(a) *Classification***

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

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

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

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade and other receivables", "Restricted cash" and "Cash and cash equivalents" in the consolidated balance sheet (Notes 14 and 15).

**(b) *Recognition and measurement***

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

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

**(c) *Offsetting financial instruments***

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Financial assets (continued)

***(d) Impairment of financial assets***

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

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

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

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

### 2.12 Inventories

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

### 2.13 Trade and other receivables

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

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

### 2.14 Cash and cash equivalents

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Restricted cash

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

### 2.16 Ordinary shares

Ordinary shares are classified as equity.

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

### 2.17 Trade and other payables

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

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

### 2.18 Borrowings

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

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

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

### 2.19 Borrowing costs

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Current and deferred income tax

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

***(a) Current income tax***

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

***(b) Deferred income tax***

*Inside basis differences*

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

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

*Outside basis differences*

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

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

***(c) Offsetting***

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Employee benefits

**(a) *Pension obligations***

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

**(b) *Housing benefits***

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

### 2.22 Share-based payments

**(a) *Equity-settled share-based payment transactions***

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

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Share-based payments (continued)

**(b) *Share-based payment transactions among group entities***

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

### 2.23 Provisions

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

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

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

### 2.24 Revenue recognition

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

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

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

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

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.24 Revenue recognition (continued)

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

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

***(c) Rendering of coating and engineering modelling assessment service***

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

***(d) Interest income***

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

***(e) Dividend income***

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

### 2.25 Government grants

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

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

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

### 2.26 Operating leases (as a lessee)

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

### 2.27 Dividend distribution

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

### 2.28 Research and development

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

# 3 FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivatives financial instruments to partially hedge certain risk exposures.

### *(a) Market risk*

*(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD") and Hong Kong dollar ("HKD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. In 2016, the Group entered into certain foreign exchange forward contracts (Note 26) to partially manage its exposure to RUB and NGN from recognised assets, which were settled in the same year; the Group also entered into certain foreign exchange forward contracts (Note 26) to partially manage its exposure to USD from recognised liabilities, which was yet settled as at 31 December 2016.

As at 31 December 2016, if USD and HKD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB33,167,000 higher/lower as a result of foreign exchange gains/losses (2015: RMB60,436,000 higher/lower as a result of foreign exchange gains/losses) on translation of USD or HKD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, and borrowings.

*(ii) Cash flow and fair value interest rate risk*

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

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

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 19. In 2016 and 2015, the Group managed certain of its cash flow interest-rate risk by entering into certain floating-to-fixed interest rate swaps (Note 16(b)). Such interest rate swaps had the economic effect of converting certain borrowings from floating rates to fixed rates.

As at 31 December 2016, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB1,090,000 (2015: RMB764,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

## 3 FINANCIAL RISK MANAGEMENT (continued)

### 3.1 Financial risk factors (continued)

#### (b) *Credit risk*

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

All cash and cash equivalents and restricted cash were deposited in major financial institutions, which the directors of the Company believe are of high credit quality.

The table below sets out the bank deposit balances with the major counterparties as at 31 December 2016 and 2015:

| | | As at 31 December | |
|---|---|---|---|
| **Counterparty** | **Rating** | **2016 RMB'000** | 2015 RMB'000 |
| China Construction Bank* | A | **95,341** | 51,419 |
| Promsvyazbank* | BB- | **85,532** | 23,589 |
| Development Bank of Singapore* | AA- | **80,938** | – |
| HSBC* | AA- | **76,886** | 297,192 |
| Citi Bank* | A | **56,854** | 182,059 |
| Bank of Ningbo Co., Ltd.** | BAA3 | **50,731** | – |
| Bank of China* | A | **49,186** | 62,667 |
| Zenith Bank* | B+ | **48,841** | 36,311 |
| China Merchants Bank Co., Ltd.* | BBB+ | **44,328** | 27,660 |
| Industrial and Commercial Bank of China Ltd.* | A | **39,498** | 19,944 |
| Faysal Bank | N/A | **39,002** | 26,360 |
| Bank of Shanghai Co., Ltd.** | A1 | **29,900** | – |
| Emirates Islamic Bank** | BAA1 | **16,687** | 27,877 |
| Far Eastern International Bank** | B1 | **14,948** | 19,890 |
| Bank Melli Iran | N/A | **13,664** | – |
| Agricultural Bank of China* | A | **7,461** | 44,129 |

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

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

The Group establishes policies in place to ensure that sales of products are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers and volume of sales. Please refer to Note 14 for an ageing analysis of the Group's receivables. Management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors. A considerable portion of sales were made to the several major oil and gas operators and their affiliates within both PRC and overseas countries, which have good credit reputation and trading records with the Group. The directors of the Company do not expect any losses from non-performance by these counterparties.

# 3 FINANCIAL RISK MANAGEMENT (continued)

## 3.1 Financial risk factors (continued)

### (c) *Liquidity risk*

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

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

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **As at 31 December 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 payable, 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** |
| **As at 31 December 2015** | | | | | |
| Borrowings and interest payables | 1,685,568 | 338,227 | 807,544 | 169 | 2,831,508 |
| Trade and other payables (excluding advance from customers, interest payable, staff salaries and welfare payables and other tax liabilities) | 875,639 | – | – | – | 875,639 |
| Derivative financial instruments | 1,327 | – | – | – | 1,327 |
| | 2,562,534 | 338,227 | 807,544 | 169 | 3,708,474 |

## 3 FINANCIAL RISK MANAGEMENT (continued)

### 3.2 Capital management

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

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

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

The gearing ratios as at 31 December 2016 and 2015 are as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
| Total borrowings *(Note 19)* | **2,748,089** | 2,676,912 |
| Less: Cash and cash equivalents *(Note 15)* | **(657,422)** | (821,364) |
| Net debt | **2,090,667** | 1,855,548 |
| Total equity | **3,491,878** | 3,256,136 |
| Total capital | **5,582,545** | 5,111,684 |
| **Gearing ratio** | **37.45%** | 36.30% |

The slight increase in gearing ratio as at 31 December 2016 was mainly due to the increase in borrowings. The Group expects the gearing ratio would be between 20% and 40% in future years.

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## 3 FINANCIAL RISK MANAGEMENT (continued)

### 3.3 Fair value estimation (continued)

The following table sets out the Group's financial liabilities that were measured at fair value at 31 December 2016 and 2015:

| **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** |

| As at 31 December 2015 | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Derivative financial instruments-current | | | | |
| Interest rate swaps | – | 1,006 | – | 1,006 |

There were no transfers among levels during the years ended 31 December 2016 and 2015.

***(a) Financial instruments in level 2***

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

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

Specific valuation techniques used to value financial instruments include:

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

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (a) Impairment for receivables

The credit period granted to customers is between 30 to 270 days. The trade and other receivables which are past due are analyzed in Note 14. In the opinion of the Company's directors, delay in receiving payments from the customers is mainly attributable to unfavorable market conditions of the oil and gas industry and delayed commencement of oil and gas exploratory or production activities due to various reasons beyond the Group's control as a result of the slow recovery of the global economy.

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability and the time value of the proceeds from settlements of trade and other receivables. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the past collection history of each counterparty, the current creditworthiness, and the current market condition. In the opinion of the Company's directors, the major customers of the Group are state-owned companies in the PRC and overseas countries, which account for over 66% of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and prevailing market conditions, the Group does not expect any significant losses from non-performance by these counterparties.

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

### (b) Useful lives of property, plant and equipment

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

### (c) Current and deferred income taxes

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

### (d) Estimated write-downs of inventories

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

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (e) Impairment assessment of goodwill

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

## 5 SEGMENT INFORMATION

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

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

The corporate overheads are not considered as business segment expenses in 2016 and 2015 as such expenses are general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

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

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

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

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

- 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.

## 5 SEGMENT INFORMATION (continued)

### (a) Revenue

The revenue of the Group for the years ended 31 December 2016 and 2015 are set out as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Oilfield equipment manufacturing and services | **781,190** | 676,462 |
| Line pipe technology and services | **371,308** | 295,038 |
| Oilfield services | **708,699** | 922,979 |
| Offshore engineering services | **67,840** | 589,850 |
| | **1,929,037** | 2,484,329 |

### (b) Segment information

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

| | Year ended 31 December 2016 | | | | |
|---|---|---|---|---|---|
| **Business segment** | **Oilfield equipment manufacturing and services RMB'000** | **Line pipe technology and services RMB'000** | **Oilfield services RMB'000** | **Offshore engineering services RMB'000** | **Total RMB'000** |
| **Revenue** | | | | | |
| Segment revenue | 874,320 | 416,408 | 708,699 | 67,840 | 2,067,267 |
| Inter-segment sales | (93,130) | (45,100) | – | – | (138,230) |
| Revenue from external customers | 781,190 | 371,308 | 708,699 | 67,840 | 1,929,037 |
| **Results** | | | | | |
| Segment gross profit/(losses) | 252,013 | 118,663 | 296,372 | (254) | 666,794 |
| Segment profit/(losses) | 274,273 | 63,346 | 221,682 | (1,826) | 557,475 |
| Corporate overheads | | | | | (65,014) |
| Operating profit | | | | | 492,461 |
| Finance income | | | | | 8,680 |
| Finance costs | | | | | (332,810) |
| Share of profit of investments accounted for using equity method | | | | | 7,297 |
| Profit before income tax | | | | | 175,628 |
| **Other information** | | | | | |
| Depreciation of property, plant and equipment | 70,050 | 13,579 | 103,003 | 51,777 | 238,409 |
| Amortization of lease prepayments | 1,223 | 904 | – | – | 2,127 |
| Amortization of intangible assets | 411 | 187 | – | 976 | 1,574 |
| Capital expenditure | 105,519 | 4,423 | 94,269 | 65,097 | 269,308 |

## 5 SEGMENT INFORMATION (continued)

### (b) Segment information (continued)

| | As at 31 December 2016 | | | | |
|---|---|---|---|---|---|
| **Business segment** | **Oilfield equipment manufacturing and services RMB'000** | **Line pipe technology and services RMB'000** | **Oilfield services RMB'000** | **Offshore engineering services RMB'000** | **Total RMB'000** |
| Segment assets | **2,912,830** | **719,890** | **2,279,368** | **1,328,471** | **7,240,559** |
| Investments accounted for using equity method | | | | | **57,615** |
| Total assets | | | | | **7,298,174** |
| Total liabilities | **3,152,492** | **241,305** | **371,919** | **40,580** | **3,806,296** |

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2015 is as follows:

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| 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 | 760,749 | 439,741 | 922,979 | 589,850 | 2,713,319 |
| Inter-segment sales | (84,287) | (144,703) | – | – | (228,990) |
| Revenue from external customers | 676,462 | 295,038 | 922,979 | 589,850 | 2,484,329 |
| **Results** | | | | | |
| Segment gross profit | 270,944 | 92,766 | 352,023 | 94,173 | 809,906 |
| Segment profit | 147,309 | 30,039 | 225,382 | 80,164 | 482,894 |
| Corporate overheads | | | | | (58,373) |
| Operating profit | | | | | 424,521 |
| Finance income | | | | | 9,169 |
| Finance costs | | | | | (238,693) |
| Share of profit of investments accounted for using equity method | | | | | 4,357 |
| Profit before income tax | | | | | 199,354 |
| **Other information** | | | | | |
| Depreciation of property, plant and equipment | 69,142 | 12,630 | 89,781 | 42,734 | 214,287 |
| Amortization of lease prepayments | 1,223 | 904 | – | – | 2,127 |
| Amortization of intangible assets | 411 | 187 | 11 | 393 | 1,002 |
| Capital expenditure | 53,245 | 37,315 | 120,397 | 95,534 | 306,491 |

## 5 SEGMENT INFORMATION (continued)

### (b) Segment information (continued)

| | As at 31 December 2015 | | | | |
|---|---|---|---|---|---|
| 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 | 2,825,012 | 585,320 | 2,169,594 | 1,425,252 | 7,005,178 |
| Investments accounted for using equity method | | | | | 59,221 |
| Total assets | | | | | 7,064,399 |
| Total liabilities | 3,017,611 | 189,609 | 426,543 | 174,500 | 3,808,263 |

### (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:

| | Year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| The PRC | **716,924** | 1,253,316 |
| Russia, Central Asia and East Europe | **479,344** | 173,518 |
| North and South America | **242,997** | 595,220 |
| South Asia | **239,449** | 133,357 |
| Africa | **211,443** | 260,487 |
| Middle East | **38,852** | 68,317 |
| Others | **28** | 114 |
| | **1,929,037** | 2,484,329 |

## 5 SEGMENT INFORMATION (continued)

### (c) Geographical segments (continued)

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

| | Carrying amount of segment assets As at 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| The PRC | **2,056,905** | 2,100,118 |
| North and South America | **475,879** | 492,723 |
| Africa | **316,258** | 318,813 |
| South Asia | **247,784** | 174,119 |
| Russia, Central Asia and East Europe | **173,235** | 69,291 |
| Middle East | **131,831** | 129,774 |
| | **3,401,892** | 3,284,838 |

The following table sets out the additions to non-current assets, excluding investments accounted for using equity method, deferred income tax assets and other long-term assets, by geographical areas in which the assets are located:

| | Year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| The PRC | **93,181** | 163,475 |
| Russia, Central Asia and East Europe | **84,838** | 2,391 |
| South Asia | **67,939** | 170 |
| North and South America | **11,812** | 33,275 |
| Africa | **10,485** | 105,261 |
| Middle East | **1,053** | 1,919 |
| | **269,308** | 306,491 |

## 6 PROPERTY, PLANT AND EQUIPMENT

| | Land, buildings and facilities RMB'000 | Machinery and equipment RMB'000 | Office and electronic equipment RMB'000 | Vehicles RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | | | | | | | |
| Cost | 516,326 | 1,449,620 | 38,330 | 26,319 | 17,190 | 1,401,555 | 3,449,340 |
| Accumulated depreciation | (80,226) | (466,090) | (22,346) | (19,296) | (5,003) | – | (592,961) |
| Net book amount | 436,100 | 983,530 | 15,984 | 7,023 | 12,187 | 1,401,555 | 2,856,379 |
| **Year ended 31 December 2015** | | | | | | | |
| Opening net book amount | 436,100 | 983,530 | 15,984 | 7,023 | 12,187 | 1,401,555 | 2,856,379 |
| Transferred from construction in progress *(c)* | 7,619 | 1,334,469 | – | – | – | (1,342,088) | – |
| Additions | 11,157 | 54,519 | 5,205 | 2,706 | 654 | 232,191 | 306,432 |
| Disposals | – | (2,564) | (410) | (83) | – | – | (3,057) |
| Depreciation *(Note 22)* | (24,743) | (180,333) | (4,486) | (2,349) | (2,376) | – | (214,287) |
| Currency translation differences | (7,614) | 62,223 | (1,071) | 93 | (589) | 39,280 | 92,322 |
| Closing net book amount | 422,519 | 2,251,844 | 15,222 | 7,390 | 9,876 | 330,938 | 3,037,789 |
| **At 31 December 2015** | | | | | | | |
| Cost | 527,618 | 2,893,745 | 41,440 | 28,406 | 17,049 | 330,938 | 3,839,196 |
| Accumulated depreciation | (105,099) | (641,901) | (26,218) | (21,016) | (7,173) | – | (801,407) |
| Net book amount | 422,519 | 2,251,844 | 15,222 | 7,390 | 9,876 | 330,938 | 3,037,789 |
| **Year ended 31 December 2016** | | | | | | | |
| Opening net book amount | **422,519** | **2,251,844** | **15,222** | **7,390** | **9,876** | **330,938** | **3,037,789** |
| Transferred from construction in progress | **14,490** | **178,482** | **2,118** | **–** | **–** | **(195,090)** | **–** |
| Transferred from leasehold improvements | **4,940** | **–** | **–** | **–** | **(4,940)** | **–** | **–** |
| Additions | **2,171** | **138,782** | **2,049** | **302** | **–** | **123,397** | **266,701** |
| Disposals *(a)* | **–** | **(86,519)** | **(260)** | **(53)** | **–** | **(209)** | **(87,041)** |
| Other deductions *(b)* | **–** | **(34,653)** | **–** | **–** | **–** | **–** | **(34,653)** |
| Depreciation *(Note 22)* | **(22,998)** | **(209,021)** | **(3,597)** | **(1,827)** | **(966)** | **–** | **(238,409)** |
| Currency translation differences | **14,778** | **160,443** | **544** | **138** | **262** | **19,192** | **195,357** |
| Closing net book amount | **435,900** | **2,399,358** | **16,076** | **5,950** | **4,232** | **278,228** | **3,139,744** |
| **At 31 December 2016** | | | | | | | |
| Cost | **565,878** | **3,211,161** | **46,271** | **28,031** | **10,433** | **278,228** | **4,140,002** |
| Accumulated depreciation | **(129,978)** | **(811,803)** | **(30,195)** | **(22,081)** | **(6,201)** | **–** | **(1,000,258)** |
| Net book amount | **435,900** | **2,399,358** | **16,076** | **5,950** | **4,232** | **278,228** | **3,139,744** |

## 6 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

(c) On 31 March 2015, the pipe-lay barge ("vessel"), amounting to RMB1,121,924,000, became ready for offshore engineering services. The vessel is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The vessel is depreciated on a straight-line basis over the anticipated useful lives, after taking into account the estimated residual values.

The useful lives of the vessel are 25 years. Upon the acquisition of the vessel, the components of the vessel which are required to be replaced at the next dry-docking are identified and their costs are depreciated over the period to the next estimated dry-docking date. Costs incurred on subsequent dry-docking of vessel are capitalized and depreciated over the period to the next estimated dry-docking date. Other components of the vessel which are expected to be replaced at the period of time shorter than the overall useful lives of the vessel are identified and their costs are depreciated using the straight-line method over their estimated useful lives after taking into account the estimated residual values.

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **218,398** | 198,668 |
| Administrative expenses | **18,696** | 14,793 |
| Selling and marketing expenses | **1,315** | 826 |
| | **238,409** | 214,287 |

As at 31 December 2016, no interest has been capitalized in assets under construction (31 December 2015: RMB12,971,000) (Note 26). The capitalised rate of borrowings was 4.71% for the year ended 31 December 2015.

## 7 LEASE PREPAYMENTS

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

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Outside of Hong Kong:** | | |
| – Lease between 10 to 50 years | **88,567** | 90,694 |

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Opening net book value | **90,694** | 92,821 |
| Amortization charges *(Note 22)* | **(2,127)** | (2,127) |
| Closing net book value | **88,567** | 90,694 |

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

## 8 INTANGIBLE ASSETS

| | Goodwill (a) RMB'000 | Proprietary technologies RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2015** | | | | |
| Cost | 151,434 | 4,861 | 9,050 | 165,345 |
| Accumulated amortization | – | (1,439) | (2,432) | (3,871) |
| Impairment provision | – | (2,097) | – | (2,097) |
| Net book amount | 151,434 | 1,325 | 6,618 | 159,377 |
| **Year ended 31 December 2015** | | | | |
| Opening net book amount | 151,434 | 1,325 | 6,618 | 159,377 |
| Additions | – | – | 59 | 59 |
| Amortization charge *(Note 22)* | – | (173) | (829) | (1,002) |
| Currency translation differences | (2,192) | – | 113 | (2,079) |
| Closing net book amount | 149,242 | 1,152 | 5,961 | 156,355 |
| **At 31 December 2015** | | | | |
| Cost | 149,242 | 4,862 | 9,109 | 163,213 |
| Accumulated amortization | – | (1,613) | (3,148) | (4,761) |
| Impairment provision | – | (2,097) | – | (2,097) |
| Net book amount | 149,242 | 1,152 | 5,961 | 156,355 |
| **Year ended 31 December 2016** | | | | |
| Opening net book amount | **149,242** | **1,152** | **5,961** | **156,355** |
| Additions | **–** | **2,526** | **81** | **2,607** |
| Amortization charge *(Note 22)* | **–** | **(169)** | **(1,405)** | **(1,574)** |
| Currency translation differences | **16,080** | **–** | **113** | **16,193** |
| Closing net book amount | **165,322** | **3,509** | **4,750** | **173,581** |
| **At 31 December 2016** | | | | |
| Cost | **165,322** | **7,388** | **10,394** | **183,104** |
| Accumulated amortization | **–** | **(1,782)** | **(5,644)** | **(7,426)** |
| Impairment provision | **–** | **(2,097)** | **–** | **(2,097)** |
| Net book amount | **165,322** | **3,509** | **4,750** | **173,581** |

## 8 INTANGIBLE ASSETS (continued)

### (a) Impairment test for goodwill

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

A segment level summary of goodwill is presented below:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Oilfield equipment manufacturing and services | **165,322** | 149,242 |

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

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

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Gross margin | **32%** | 40% |
| Discount rate | **16%** | 16% |

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2016 (2015: nil).

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **585** | 393 |
| Administrative expenses | **989** | 609 |
| | **1,574** | 1,002 |

## 9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

| | As at 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Associates | **33,019** | 34,681 |
| Joint venture | **24,596** | 24,540 |
| | **57,615** | 59,221 |

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

| | For the year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Associates | **7,241** | 4,383 |
| Joint venture | **56** | (26) |
| | **7,297** | 4,357 |

### (a) Investments in associates

| | For the year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Beginning of year | **34,681** | 32,094 |
| Share of results of associates | **7,241** | 4,383 |
| Elimination of unrealized profit | **(6,604)** | – |
| Dividends declared | **(2,299)** | (1,796) |
| End of year | **33,019** | 34,681 |

## 9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

### (a) Investments in associates (continued)

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

| Company name | Country/place and date of incorporation | Paid-up capital | Attributable equity interests to the Group As at 31 December 2016 | 2015 | Principal activities |
|---|---|---|---|---|---|
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | Shandong, the PRC 12 February 2007, | RMB20,000,000 | **30%** | 30% | Coating service provision |
| Anshan Hidlong Anti-Corrosion Engineering Co., Ltd. | Liaoning, the PRC 22 November 2010, | RMB15,000,000 | **30%** | 30% | Coating service provision |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | Shaanxi, the PRC 20 November 2004, | RMB18,000,000 | **22.95%** | 22.95% | Coating service provision |

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

| | Assets RMB'000 | Liabilities RMB'000 | Net assets RMB'000 | Revenue RMB'000 | Profit RMB'000 |
|---|---|---|---|---|---|
| As at and year ended 31 December 2016 | **98,505** | **65,486** | **33,019** | **59,385** | **7,241** |
| As at and year ended 31 December 2015 | 102,799 | 68,118 | 34,681 | 48,918 | 4,383 |

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

### (b) Investment in a joint venture

| | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Beginning of year | **24,540** | 24,566 |
| Share of results of a joint venture | **56** | (26) |
| End of year | **24,596** | 24,540 |

## 9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

### (b) Investment in a joint venture (continued)

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

| Company name | Country/place and date of incorporation | Paid-up capital | Attributable equity interest to the Group As at 31 December | | Principal activities |
|---|---|---|---|---|---|
| | | | **2016** | 2015 | |
| Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. | the PRC 24 July 2013, | RMB50,000,000 | **49%** | 49% | Coating service provision |

| | Assets RMB'000 | Liabilities RMB'000 | Net assets RMB'000 | Revenue RMB'000 | Profit/ (Loss) RMB'000 |
|---|---|---|---|---|---|
| As at and year ended 31 December 2016 | **33,653** | **9,057** | **24,596** | **2,228** | **56** |
| As at and year ended 31 December 2015 | 35,928 | 11,388 | 24,540 | 27,788 | (26) |

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

## 10 OTHER LONG-TERM ASSETS

| | As at 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Long-term prepaid expenses | **4,313** | 1,563 |

## 11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

| | As at 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| **Deferred income tax assets:** | | |
| – to be recovered within 12 months | **44,073** | 55,316 |
| – to be recovered after more than 12 months | **99,125** | 75,828 |
| | **143,198** | 131,144 |
| **Deferred income tax liabilities:** | | |
| – to be recovered after more than 12 months | **(44,113)** | (45,193) |

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

| Deferred income tax assets | Tax losses and tax credits carried forward RMB'000 | Impairment provision on assets RMB'000 | Accruals RMB'000 | Unrealized profit (a) RMB'000 | Allowance related to capitalized expenditure RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | 22,411 | 6,648 | 2,684 | 75,891 | 5,395 | 2,583 | 115,612 |
| Credit/(charged) to the consolidated income statement *(Note 27)* | 16,248 | (737) | 771 | 7,330 | – | (884) | 22,728 |
| At 31 December 2015 | 38,659 | 5,911 | 3,455 | 83,221 | 5,395 | 1,699 | 138,340 |
| Credit/(charged) to the consolidated income statement *(Note 27)* | 23,789 | 196 | (754) | (9,611) | – | (763) | 12,857 |
| **At 31 December 2016** | **62,448** | **6,107** | **2,701** | **73,610** | **5,395** | **936** | **151,197** |

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

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. Part of the accumulated tax losses recognised as deferred tax assets amounted to RMB10,680,000, RMB7,118,000, RMB2,980,000, RMB13,485,000, RMB77,723,000, RMB53,452,000 will expire in years ending 31 December of 2017, 2018, 2019, 2020, 2021, 2036 respectively. The remaining portion of the accumulated tax losses amounted to RMB88,941,000 can be carried forward indefinitely.

The Group did not recognise cumulative deferred income tax assets of RMB171,776,000 as at 31 December 2016 (31 December 2015: RMB40,824,000) in respect of the accumulated tax losses of certain subsidiaries.

## 11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

| Deferred income tax liabilities | Withholding taxation on unremitted earnings of certain subsidiaries RMB'000 | Gains on remeasuring existing equity interests in certain associate and joint ventures on acquisition RMB'000 | Fair value adjustments on assets and liabilities upon acquisition RMB'000 | Accelerated tax depreciation expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2015** | (38,436) | (3,381) | (5,084) | (3,804) | (50,705) |
| Credit/(charged) to the consolidated income statement *(Note 27)* | – | – | 294 | (2,908) | (2,614) |
| Currency translation differences | – | – | 1,076 | (146) | 930 |
| **At 31 December 2015** | (38,436) | (3,381) | (3,714) | (6,858) | (52,389) |
| Credit/(charged) to the consolidated income statement *(Note 27)* | 125 | – | (1,069) | 1,196 | 252 |
| Currency translation differences | – | – | 267 | (242) | 25 |
| **At 31 December 2016** | **(38,311)** | **(3,381)** | **(4,516)** | **(5,904)** | **(52,112)** |

## 12 SUBSIDIARIES

Detail of the subsidiaries of the Group as at 31 December 2016 and 2015 are set out in Note 35.

## 13 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Raw materials | **410,863** | 319,151 |
| Work in progress | **70,441** | 51,516 |
| Finished goods | **299,712** | 416,608 |
| Packing materials | **1,800** | 424 |
| Low value consumables | **15,943** | 16,495 |
| | **798,759** | 804,194 |

The cost of inventories recognised as cost of sales amounted to approximately RMB670,995,000 for the year ended 31 December 2016 (2015: RMB663,061,000).

During the year ended 31 December 2016, the Group has not reversed any inventory provision write-down brought forward from prior years (2015: RMB352,000). As at 31 December 2016, inventory provision relating to raw materials and finished goods amounted to RMB4,794,000 (31 December 2015: RMB4,794,000).

## 14 TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| Bills receivable *(a)* | **34,073** | 34,615 |
| Trade receivables *(b)* | **1,656,686** | 1,548,966 |
| – Due from related parties *(Note 34(c))* | **12,869** | 38,316 |
| – Due from third parties | **1,643,817** | 1,510,650 |
| Less: provision for impairment of receivables *(d)* | **(33,511)** | (27,237) |
| Trade receivables – net | **1,623,175** | 1,521,729 |
| Other receivables *(c)* | **196,479** | 164,092 |
| Prepayments | **184,894** | 133,837 |
| Dividend receivables *(Note 34(c))* | **1,550** | 3,346 |
| Trade and other receivables – net | **2,040,171** | 1,857,619 |

As at 31 December 2016 and 2015, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2016 and 2015, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| – USD | **944,882** | 807,771 |
| – RMB | **859,087** | 898,806 |
| – RUB | **132,277** | 41,273 |
| – AED | **25,965** | 29,164 |
| – NGN | **23,978** | 41,702 |
| – CAD | **22,164** | 20,970 |
| – KZT | **16,793** | 2,478 |
| – COP | **7,094** | 8,951 |
| – PKR | **6,485** | 4,182 |
| – ALL | **790** | 181 |
| – HKD | **508** | 410 |
| – ETB | **114** | 1,583 |
| – EUR | **34** | 148 |
| | **2,040,171** | 1,857,619 |

## 14 TRADE AND OTHER RECEIVABLES (continued)

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

(b) The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2016 and 2015 was as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Trade receivables, gross | | |
| – Within 90 days | **623,899** | 725,537 |
| – Over 90 days and within 180 days | **134,241** | 264,531 |
| – Over 180 days and within 360 days | **234,892** | 236,135 |
| – Over 360 days and within 720 days | **510,644** | 231,735 |
| – Over 720 days | **153,010** | 91,028 |
| | **1,656,686** | 1,548,966 |

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

As at 31 December 2016, trade receivables of RMB33,511,000 (31 December 2015: RMB27,237,000) were impaired and fully provided for impairment losses. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at 31 December 2016, trade receivables of RMB970,243,000 (31 December 2015: RMB796,192,000) were past due but not impaired. These mainly relate to customers that are state-owned companies in the PRC and overseas countries which have good credit reputation and trading records with the Group. Based on the past experiences, the directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| – Within 90 days | **64,203** | – |
| – Over 90 days and within 180 days | **149,400** | 264,531 |
| – Over 180 days and within 360 days | **223,380** | 236,135 |
| – Over 360 days and within 720 days | **413,806** | 231,735 |
| – Over 720 days | **119,454** | 63,791 |
| | **970,243** | 796,192 |

## 14 TRADE AND OTHER RECEIVABLES (continued)

(c) Details of other receivables are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| Due from related parties *(Note 34(c))* | **104,618** | 76,348 |
| Deposits | **36,964** | 25,698 |
| Staff advances | **26,447** | 22,948 |
| Value added tax refund | **1,561** | 11,466 |
| Others | **26,889** | 27,632 |
| | **196,479** | 164,092 |

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| At beginning of the year | **(27,237)** | (25,793) |
| Additional provision *(Note 22)* | **(6,274)** | (10,483) |
| Write off of impairment | **–** | 9,039 |
| At the end of the year | **(33,511)** | (27,237) |

## 15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| | As at 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| Cash at bank and in hand *(a)* | **812,458** | 893,232 |
| Less: Restricted cash *(b)* | **(155,036)** | (71,868) |
| Cash and cash equivalents | **657,422** | 821,364 |

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

## 15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Cash at bank and in hand are denominated in: | | |
| – RMB | **450,907** | 355,153 |
| – USD | **241,238** | 434,897 |
| – RUB | **43,909** | 13,439 |
| – NGN | **29,053** | 21,696 |
| – AED | **20,783** | 7,808 |
| – PKR | **11,856** | 11,626 |
| – CAD | **9,703** | 7,335 |
| – HKD | **2,700** | 38,526 |
| – COP | **1,340** | 1,009 |
| – KZT | **392** | 1,378 |
| – ALL | **215** | – |
| – MYR | **129** | – |
| – ETB | **120** | 321 |
| – PEN | **71** | – |
| – EURO | **42** | 44 |
| | **812,458** | 893,232 |
| Restricted cash is denominated in: | | |
| – RMB | **138,218** | 57,006 |
| – AED | **13,512** | – |
| – USD | **3,306** | 14,862 |
| | **155,036** | 71,868 |

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

## 16 DERIVATIVE FINANCIAL INSTRUMENTS

| | As at 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 |
| Foreign exchange forward contracts *(a)* | **1,097** | – |
| Interest rate swaps *(b)* | **–** | 1,006 |
| | **1,097** | 1,006 |

### (a) Foreign exchange forward contracts

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

### (b) Interest rate swaps

As at 31 December 2016, the Group has no outstanding interest rate swap contracts entered into with commercial banks, which have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2015, the notional principal amounts of the outstanding interest rate swaps were USD51,000,000 and HKD141,592,105 and the fixed interest rates varied from 4% to 4.458% per annum. Gains and losses arising from the fair value change of the interest rate swaps were recognised in the consolidated income statements within "finance costs – net".

## 17 ORDINARY SHARES

| | *Note* | Number of ordinary shares | Nominal value of ordinary shares (In HKD) | Equivalent nominal value of ordinary shares (In RMB) |
|---|---|---|---|---|
| As at 1 January 2015 | | 1,696,390,600 | 169,639,060 | 141,971,504 |
| Issue of shares upon exercise of options | *(a)* | 48,000 | 4,800 | 4,002 |
| As at 31 December 2015 | | 1,696,438,600 | 169,643,860 | 141,975,506 |
| As at 31 December 2016 | | **1,696,438,600** | **169,643,860** | **141,975,506** |

(a) During the year ended 31 December 2015, a total of 48,000 ordinary shares at par value of HKD0.1 per share were issued for cash at the exercise price of HKD2.6 per share as a result of the exercise of share options (Note 18(b)(i)).

## 18 OTHER RESERVES

| | Statutory reserve | Merger reserve | Share options reserve | Share premium | Capital redemption reserve | Capital reserve | Total |
|---|---|---|---|---|---|---|---|
| As at 1 January 2015 | 96,690 | (141,929) | 33,159 | 1,172,118 | 702 | (43,553) | 1,117,187 |
| Appropriation to statutory reserve *(a)* | 2,158 | – | – | – | – | – | 2,158 |
| Pre-IPO share option plan *(b)* | – | – | 1,254 | – | – | – | 1,254 |
| 2013 Share Option Scheme *(b)* | – | – | 6,834 | – | – | – | 6,834 |
| Exercise of share options *(b)* | – | – | (35) | 130 | – | – | 95 |
| As at 31 December 2015 | 98,848 | (141,929) | 41,212 | 1,172,248 | 702 | (43,553) | 1,127,528 |
| As at 1 January 2016 | 98,848 | (141,929) | 41,212 | 1,172,248 | 702 | (43,553) | 1,127,528 |
| Appropriation to statutory reserve *(a)* | 1,805 | – | – | – | – | – | 1,805 |
| Pre-IPO share option plan *(b)* | – | – | 140 | – | – | – | 140 |
| 2013 Share Option Scheme *(b)* | – | – | 3,970 | – | – | – | 3,970 |
| As at 31 December 2016 | **100,653** | **(141,929)** | **45,322** | **1,172,248** | **702** | **(43,553)** | **1,133,443** |

### (a) Statutory reserve

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

For the year ended 31 December 2016, RMB1,805,000 (2015: RMB2,158,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

### (b) Share options reserve

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

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

## 18 OTHER RESERVES (continued)

### (b) Share options reserve (continued)

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

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

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

| | Exercise price (per share in HKD) | Outstanding options Year ended 31 December | |
|---|---|---|---|
| | | **2016** | 2015 |
| At 1 January | 2.60 | **30,743,900** | 31,594,300 |
| Exercised | 2.60 | **–** | (48,000) |
| Forfeited | 2.60 | **(1,569,600)** | (802,400) |
| At 31 December | 2.60 | **29,174,300** | 30,743,900 |

The share options outstanding (expiry date: 21 April 2021) as at 31 December 2016 and 2015 have the following vesting dates and exercise prices:

| Vesting date | Exercise price (per share in HKD) | Outstanding options Year ended 31 December | |
|---|---|---|---|
| | | **2016** | 2015 |
| 21 April 2012 | 2.60 | **2,122,900** | 2,224,500 |
| 21 April 2013 | 2.60 | **6,342,800** | 6,709,800 |
| 21 April 2014 | 2.60 | **6,889,000** | 7,256,000 |
| 21 April 2015 | 2.60 | **6,901,800** | 7,268,800 |
| 21 April 2016 | 2.60 | **6,917,800** | 7,284,800 |
| | | **29,174,300** | 30,743,900 |

All of the options were exercisable as at 31 December 2016 (2015: 23,459,100 options). No options were exercised in 2016 (2015: 48,000 ordinary shares).

## 18 OTHER RESERVES (continued)

### (b) Share options reserve (continued)

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

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

| | Granting date<br>RMB'000 |
|---|---|
| Total fair value of pre-IPO share options | 32,804 |

The significant inputs into the model were as follows:

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2016<br>RMB'000** | 2015<br>RMB'000 |
| Cost of sales | **4** | 18 |
| Administrative expenses | **120** | 1,135 |
| Selling and marketing expenses | **16** | 101 |
| | **140** | 1,254 |

## 18 OTHER RESERVES (continued)

### (b) Share options reserve (continued)

#### *(ii) 2013 Share Option Scheme*

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

| | Exercise price (per share in HKD) | Outstanding options Year ended 31 December | |
|---|---|---|---|
| | | **2016** | 2015 |
| Beginning of the period | 5.93 | **18,060,300** | 19,563,400 |
| Forfeited | 5.93 | **(839,100)** | (1,503,100) |
| End of the period | 5.93 | **17,221,200** | 18,060,300 |

The share options outstanding (expiry date: 4 February 2024) as at 31 December 2016 and 2015 have the following vesting dates and exercise prices:

| Vesting date | Exercise price (per share in HKD) | Outstanding options Year ended 31 December | |
|---|---|---|---|
| | | **2016** | 2015 |
| 5 February 2015 | 5.93 | **3,444,240** | 3,612,060 |
| 5 February 2016 | 5.93 | **3,444,240** | 3,612,060 |
| 5 February 2017 | 5.93 | **3,444,240** | 3,612,060 |
| 5 February 2018 | 5.93 | **3,444,240** | 3,612,060 |
| 5 February 2019 | 5.93 | **3,444,240** | 3,612,060 |
| | | **17,221,200** | 18,060,300 |

Out of the 17,221,200 outstanding options (2015: 18,060,300 outstanding options), 6,888,480 options (2015: 3,612,060 options) were exercisable.

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 |

## 18 OTHER RESERVES (continued)

### (b) Share options reserve (continued)

#### *(ii) 2013 Share Option Scheme (continued)*

The significant inputs into the model were as follows:

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **22** | 61 |
| Administrative expenses | **727** | 1,281 |
| Selling and marketing expenses | **3,221** | 5,492 |
| | **3,970** | 6,834 |

## 19 BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Non-current** | | |
| Bank borrowing – unsecured *(b)* | **1,703,570** | 2,156,532 |
| Less: Current portion of non-current borrowings *(b)* | **(386,159)** | (1,072,068) |
| | **1,317,411** | 1,084,464 |
| **Current** | | |
| Bank borrowings – secured *(a)* | **512,223** | 50,377 |
| Bank borrowings – unsecured | **532,296** | 470,003 |
| Current portion of non-current borrowings *(b)* | **386,159** | 1,072,068 |
| | **1,430,678** | 1,592,448 |
| | **2,748,089** | 2,676,912 |

## 19 BORROWINGS (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Bank borrowings: | | |
| – USD | **1,785,758** | 1,649,542 |
| – HKD | **511,460** | 613,485 |
| – RMB | **450,871** | 413,885 |
| | **2,748,089** | 2,676,912 |

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

| | **6 months or less** | **Between 6 and 12 months** | **Between 1 and 5 years** | **Total** |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 31 December 2016 | **2,528,089** | **220,000** | **–** | **2,748,089** |
| As at 31 December 2015 | 2,507,842 | 169,070 | – | 2,676,912 |

The maturity of borrowings is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| On demand or within 1 year | **1,430,678** | 1,592,448 |
| Between 1 and 2 years | **1,316,967** | 292,203 |
| Between 2 and 5 years | **393** | 792,098 |
| Over 5 years | **51** | 163 |
| | **2,748,089** | 2,676,912 |

## 19 BORROWINGS (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Borrowings – current | | |
| – RMB | **4.74%** | 5.45% |
| – HKD | **4.45%** | 4.63% |
| – USD | **4.93%** | 4.76% |
| Borrowings – non-current | | |
| – HKD | **5.05%** | 4.63% |
| – USD | **5.16%** | 4.76% |

The fair values of current borrowings equal to their carrying amount as the discounting impact is not significant. Interests on non-current bank borrowings are charged at variable interest rates and the fair values approximated their carrying amount.

The Group had the following undrawn bank borrowing facilities:

| | As at 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| USD facilities | **318,915** | 578,433 |
| RMB facilities | **492,630** | 288,431 |
| HKD facilities | **–** | 135,456 |
| | **811,545** | 1,002,320 |

### (a) Bank borrowings – secured

The bank borrowings of RMB168,867,000 (31 December 2015: RMB50,377,000) were secured by bank deposits of RMB103,044,000 (Note 15(b)) of the Group as at 31 December 2016 (31 December 2015: RMB32,544,000).

The bank borrowings of RMB11,191,000 (31 December 2015: Nil) were secured by commercial acceptance bills of the Group as at 31 December 2016.

As at 31 December 2016, there were bank borrowings of RMB20,000,000 (31 December 2015: Nil) were 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 September 2016, the Company entered into USD loan agreements with a financial institution amounted to USD45,000,000. These loan principals were secured by the ultimate Controlling Shareholder of the Group and Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., one of the related parties of the Group.

## 19 BORROWINGS (continued)

### (b) Non-current unsecured bank borrowings

In September 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 23 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD147,250,000 facility and a HKD408,813,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 31 December 2016, the Group had fully repaid the loan.

In April 2014, the Company entered into a multi-currency loan facility agreement with a syndicate of 9 banks. Pursuant to the agreement, the Company obtained four-year syndicated loan facilities, including a USD74,000,000 facility and a HKD201,500,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 31 December 2016, the Group had fully drawn down the aforementioned facility, out of which USD22,200,000 and HKD60,450,000 had been repaid during 2016. The remaining principals are fully repayable in 2017 and 2018, respectively.

In July 2015, the Company entered into a multi-currency loan facility agreement with a syndicate of 13 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD139,778,000 facility and a HKD380,611,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 31 December 2016, the Group had fully drawn down the aforementioned facility. These loan principals will be fully repayable in 2017 and 2018, respectively.

## 20 DEFERRED REVENUE

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

| | **As at 31 December** | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Non-current** | | |
| – Mobilization fees | **17,660** | – |
| – Government grants | **18,162** | 23,171 |
| | **35,822** | 23,171 |
| **Current** | | |
| – Mobilization fees | **771** | – |
| – Government grants | **76** | 122 |
| | **847** | 122 |
| | **36,669** | 23,293 |

## 21 TRADE AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Bills payable | **96,287** | 75,393 |
| Trade payables: | | |
| – Due to third parties | **511,514** | 702,395 |
| Other payables: | **135,965** | 80,336 |
| – Due to related parties *(Note 34(c))* | **97,386** | 31,483 |
| – Due to third parties | **38,579** | 48,853 |
| Staff salaries and welfare payables | **45,174** | 43,022 |
| Advances from customers | **95,367** | 70,913 |
| Interest payables | **21,807** | 15,286 |
| Accrued taxes other than income tax | **36,108** | 53,374 |
| Dividends payable | **1,463** | 1,463 |
| Other liabilities | **7,227** | 16,052 |
| | **950,912** | 1,058,234 |

As at 31 December 2016 and 2015, all trade and other payables of the Group were non-interest bearing, and their fair values, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

As at 31 December 2016 and 2015, trade and other payables were denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| – RMB | **598,095** | 706,646 |
| – USD | **273,318** | 291,113 |
| – RUB | **24,958** | 21,613 |
| – PKR | **13,359** | 6,496 |
| – NGN | **12,173** | 10,736 |
| – ETB | **6,766** | 6,557 |
| – AED | **6,014** | 11,947 |
| – HKD | **5,077** | 13 |
| – KZT | **4,316** | 1,542 |
| – CAD | **3,536** | 1,485 |
| – ALL | **3,300** | 86 |
| | **950,912** | 1,058,234 |

## 21 TRADE AND OTHER PAYABLES (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Trade payables, gross | | |
| – Within 90 days | **325,061** | 537,038 |
| – Over 90 days and within 180 days | **170,397** | 101,272 |
| – Over 180 days and within 360 days | **10,400** | 62,662 |
| – Over 360 days and within 720 days | **5,458** | 1,275 |
| – Over 720 days | **198** | 148 |
| | **511,514** | 702,395 |

## 22 EXPENSES BY NATURE

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Changes in inventories of finished goods and work in progress *(Note 13)* | **97,971** | 89,460 |
| Raw materials and consumable used *(Note 13)* | **573,024** | 573,601 |
| Employee benefit expenses *(Note 23)* | **402,625** | 493,999 |
| Depreciation *(Note 6)* | **238,409** | 214,287 |
| Transportation expenses | **92,115** | 100,861 |
| Utilities and electricity | **53,406** | 83,254 |
| Consulting expenses | **40,181** | 39,016 |
| Entertainment expenses | **36,761** | 51,991 |
| Research and development expenses | **36,082** | 50,456 |
| Travelling and communication expenses | **30,024** | 45,850 |
| Operating lease payments | **28,896** | 32,083 |
| Taxes and levies | **19,288** | 27,109 |
| Marketing and promotion expenses | **15,385** | 24,429 |
| Sales commission | **9,106** | 11,734 |
| Auditor's remuneration | **4,367** | 3,680 |
| Audit services | **3,500** | 3,250 |
| Non-audit services | **867** | 430 |
| Amortization of lease prepayments *(Note 7)* | **2,127** | 2,127 |
| Amortization of intangible assets *(Note 8)* | **1,574** | 1,002 |
| Provision for impairment of receivables *(Note 14(d))* | **6,274** | 10,483 |
| Reversal of provision for inventory write-down *(Note 13)* | **–** | (352) |
| Subcontract cost | **–** | 290,952 |
| Miscellaneous | **11,315** | 10,395 |
| Total cost of sales, selling and marketing expenses and administrative expenses | **1,698,930** | 2,156,417 |

## 23 EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Wages and salaries | **329,675** | 415,830 |
| Social security costs | **68,840** | 70,081 |
| Share options granted to directors and employees *(Note 18(b)(i), (ii))* | **4,110** | 8,088 |
| | **402,625** | 493,999 |

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 include three (2015: three) directors whose emoluments are reflected in the analysis presented in Note 24. The emoluments payable to the remaining two (2015: two) individuals during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Salaries | **1,257** | 1,257 |
| Discretionary bonus and allowances | **1,298** | 1,298 |
| Social security costs | **141** | 141 |
| Share options *(Note 18(b))* | **36** | 160 |
| | **2,732** | 2,856 |

The emoluments fell within the following bands:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Emolument bands: | | |
| Nil to HKD1,500,000 | **–** | – |
| HKD1,500,001 to HKD2,000,000 | **2** | 2 |
| HKD2,000,001 to HKD2,500,000 | **–** | – |
| HKD2,500,001 to HKD3,000,000 | **–** | – |
| | **2** | 2 |

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

## 24 BENEFITS AND INTERESTS OF DIRECTORS

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

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

For the year ended 31 December 2016:

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

## 24 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

For the year ended 31 December 2015:

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salary | Discretionary bonus and allowance | Social security | Share options | Employer's contribution to a retirement benefit scheme | Remunerations paid or receivable in respect of accepting office as director | | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2015** | | | | | | | | | |
| Zhang Jun (張軍) | – | 731 | 751 | 60 | 22 | – | – | – | 1,564 |
| Wang Tao (汪濤) | – | 726 | 548 | 64 | 80 | – | – | – | 1,418 |
| Zhang Shuman (張姝嫚) | – | 1,380 | – | 52 | 22 | – | – | – | 1,454 |
| Yuan Pengbin (袁鵬斌) | – | 771 | 469 | 77 | 80 | – | – | – | 1,397 |
| Ji Min (紀敏)* | – | 302 | – | 32 | – | – | – | – | 334 |
| Li Huaiqi (李懷奇) | – | 290 | – | – | – | – | – | – | 290 |
| Yang Qingli (楊慶理)** | 89 | – | – | – | – | – | – | – | 89 |
| Wang Tao (王濤) | 122 | – | – | – | – | – | – | – | 122 |
| Lee Siang Chin | 122 | – | – | – | – | – | – | – | 122 |
| Liu Haisheng (劉海勝) | 122 | – | – | – | – | – | – | – | 122 |
| | 455 | 4,200 | 1,768 | 285 | 204 | – | – | – | 6,912 |

* Resigned on 27 May 2015.

** Appointed on 21 August 2015.

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

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

## 25 OTHER GAINS – NET

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Government grants | **22,818** | 16,317 |
| Gains on disposal of property, plant and equipment – net | **15,465** | 2,909 |
| Exchange gains | **222,116** | 78,324 |
| Others | **1,955** | (941) |
| | **262,354** | 96,609 |

## 26 FINANCE COSTS – NET

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Finance income: | | |
| – Interest income derived from bank deposits | **8,680** | 6,533 |
| – Fair value gains on interest rate swaps and cross currency swaps | **–** | 1,474 |
| – Fair value gains on foreign exchange forward contracts | **–** | 1,162 |
| | **8,680** | 9,169 |
| Finance costs: | | |
| – Interest expense on bank borrowings | **(161,128)** | (136,017) |
| Less: interest capitalised *(Note 6(c))* | **–** | 12,971 |
| – Exchange losses | **(157,277)** | (115,647) |
| – Fair value losses on interest rate swaps | **(521)** | – |
| – Fair value losses on foreign exchange forward contracts | **(13,884)** | – |
| | **(332,810)** | (238,693) |
| Finance costs – net | **(324,130)** | (229,524) |

## 27 INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Current income tax | **60,828** | 45,357 |
| Deferred income tax *(Note 11)* | **(13,109)** | (20,114) |
| Income tax expense | **47,719** | 25,243 |

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

| | Year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| Profit before tax | **175,628** | 199,354 |
| Tax calculated at statutory tax rates applicable to each group entity | **17,370** | 14,784 |
| Tax effect of: | | |
| Expenses not deductible for tax purpose | **18,368** | 5,138 |
| Additional deduction for research and development expenses *(b)* | **(5,182)** | (4,447) |
| Utilisation of previously unrecognised tax losses | **(6,042)** | (8,597) |
| Tax losses of subsidiaries not recognised | **23,205** | 18,365 |
| Tax charge | **47,719** | 25,243 |

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the years ended 31 December 2016 and 2015.

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates of 15% to 34% prevailing in the places in which these enterprises operated for the year ended 31 December 2016 (31 December 2015: 20% to 34%).

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

## 27 INCOME TAX EXPENSE (continued)

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

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

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

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 30 December 2016 and 29 December 2015, all the earnings generated by the Company's PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB5,759,000 (2015: RMB2,776,000) have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2016 and 2015. As at 31 December 2016, deferred income tax liabilities of RMB57,223,000 (31 December 2015: RMB51,464,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,144,460,000 (31 December 2015: RMB1,029,280,000).

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Shanghai Hilong Drill Pipe Co., Ltd.* | **15%** | 15% |
| Hilong Drill Pipe (Wuxi) Co., Ltd.* | **15%** | 15% |
| Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.* | **15%** | 15% |
| Hilong Pipeline Engineering Technology Service Co., Ltd.* | **15%** | 15% |
| Shanghai Hilong Shine New Material Co., Ltd.* | **15%** | 15% |
| Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.* | **15%** | 15% |
| Sichuan Hilong Petroleum Technology Co., Ltd.* | **15%** | 15% |
| Shanghai Boteng Welding Consumable Co., Ltd.* | **15%** | 25% |
| Shanxi Tangrong Hilong Drill Tools Co., Ltd.* | **15%** | 15% |

## 27 INCOME TAX EXPENSE (continued)

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

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

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

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2014 to 2016.

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

* Shanghai Hilong Shine New Material Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2014 to 2016.

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

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

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

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

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2016 and 2015.

### (b) Additional deduction for research and development expenses

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

## 28 EARNINGS PER SHARE

### Basic

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Profit attributable to equity owners of the Company *(RMB'000)* | **124,611** | 160,983 |
| Weighted average number of ordinary shares in issue *(thousands of shares)* | **1,696,439** | 1,696,423 |
| Basic earnings per share *(RMB per share)* | **0.0735** | 0.0949 |

### Diluted

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

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 31 December) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 31 December 2016, there were 29,174,300 (31 December 2015: 30,743,900) share options outstanding related to Pre-IPO share option plan. For the year ended 31 December 2016, as the average market share price of the ordinary shares during the year was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 31 December 2016, there were 17,221,200 (31 December 2015: 18,060,300) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2016 and 31 December 2015, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

## 29 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 24 March 2017, a final dividend of HKD0.0100 (equivalent to approximately RMB0.0089) per share for the year ended 31 December 2016 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 11 July 2017 to the shareholders of the Company whose names appear on the register of members of the Company as at 29 June 2017. The total amount is estimated to be HKD16,964,000 (equivalent to approximately RMB15,175,000). These financial statements do not reflect this dividend payable.

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

The dividend in respect of 2014 of HKD0.0500 (equivalent to RMB0.0395) per share, amounted to a total dividend of HKD84,822,000 (equivalent to RMB66,925,000), was approved at the Company's annual general meeting on 26 June 2015. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2015 and paid out.

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

## 30 CASH GENERATED FROM OPERATIONS

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Profit for the year before income tax | **175,628** | 199,354 |
| Adjustments for: | | |
| – Depreciation of property, plant and equipment *(Note 6)* | **238,409** | 214,287 |
| – Amortization of lease prepayments *(Note 7)* | **2,127** | 2,127 |
| – Amortization of intangible assets *(Note 8)* | **1,574** | 1,002 |
| – Reversal of provision for inventory write-down *(Note 13)* | **–** | (352) |
| – Provision for impairment of receivables *(Note 14)* | **6,274** | 10,483 |
| – Share of profit of investments accounted for using equity method *(Note 9)* | **(7,297)** | (4,357) |
| – Finance costs *(Note 26)* | **327,121** | 247,594 |
| – Net gains on disposal of property, plant and equipment *(Note 25)* | **(15,465)** | (2,909) |
| – Share option expenses *(Note 18(b))* | **4,110** | 8,088 |
| | **732,481** | 675,317 |
| Changes in working capital: | | |
| – (Increase)/decrease in trade and other receivables | **(159,922)** | 26,794 |
| – (Increase)/decrease in inventories | **(15,471)** | 36,698 |
| – (Increase)/decrease in restricted cash | **(12,668)** | 11,993 |
| – Increase/(decrease) in deferred revenue | **13,376** | (407) |
| – Decrease in trade and other payables | **(236,671)** | (68,019) |
| – Cash generated from operations | **321,125** | 682,376 |

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Net book amount *(Note 6)* | **87,041** | 3,057 |
| Net gains on disposal of property, plant and equipment *(Note 25)* | **15,465** | 2,909 |
| Proceeds from disposal of property, plant and equipment | **102,506** | 5,966 |
| Collected in 2016 | **35,000** | 3,193 |
| Not yet collected *(i)* | **67,506** | 2,773 |
| | **102,506** | 5,966 |

(i) The not yet collected part amounted to RMB2,773,000 as at 31 December 2015 has been fully collected in 2016.

## 31 COMMITMENTS

### (a) Capital commitments

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

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **10,617** | 577 |

### (b) Operating lease commitments

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

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

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| No later than 1 year | **11,878** | 8,320 |
| Later than 1 year and no later than 3 year | **23,911** | 2,127 |
| Later than 3 years | **8,488** | 9,155 |
| | **44,277** | 19,602 |

## 32 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### (a) Acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd.

On 8 May 2014, Hilong Group of Companies Ltd., a wholly owned subsidiary of the Group, acquired an additional 5% equity interest in Hilong Oil Service and Engineering Co., Ltd. at a consideration of RMB4,860,000. The carrying amount of the non-controlling interests in Hilong Oil Service and Engineering Co., Ltd. on the date of acquisition was RMB3,971,000. The Group recognised a decrease in non-controlling interests of RMB3,971,000 and a decrease in equity attributable to owners of the Company of RMB889,000. As at 31 December 2016, the unpaid cash consideration amounted to RMB938,000 (As at 31 December 2015: RMB938,000) (Note 34(c)).

## 33 BUSINESS COMBINATION

### (a) Acquisition of Russia Coating Business

The Group originally held a 56% equity interest in Hilong Temerso, a provider of coating services. Hilong Group acquired an additional 44% equity interest in Hilong Temerso from Kamelon LLC and obtained the control of Hilong Temerso on 1 December 2014. After the acquisition, the Group's effective equity interest in Hilong Temerso increased from 56% to 100%. In addition, the Group also acquired a 100% equity interest in Technomash LLC which was also owned by Kamelon LLC in 2014.

The goodwill of RMB44,477,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the Russia Coating Business. None of the goodwill recognised is expected to be deductible for income tax purposes.

## 33 BUSINESS COMBINATION (continued)

### (a) Acquisition of Russia Coating Business (continued)

The following table summarized the consideration paid for Russia Coating Business, the fair values of assets acquired and, liabilities assumed at the acquisition date:

| | RMB'000 |
|---|---|
| Consideration: | |
| Total consideration transferred *(i)* | 33,216 |
| Fair value of equity interest held before the business combination | 21,835 |
| **Total consideration** | **55,051** |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Property, plant and equipment *(Note 6)* | 41,838 |
| Inventories | 5,351 |
| Trade and other receivables | 3,939 |
| Cash and cash equivalents | 709 |
| Trade and other payables | (41,986) |
| Deferred income tax assets *(Note 11)* | 4,755 |
| Deferred income tax liabilities *(Note 11)* | (4,032) |
| **Total identifiable net assets** | **10,574** |
| Goodwill *(Note 8)* | 44,477 |
| | **55,051** |

***(i) Total consideration transferred***

Part of the consideration included cash consideration of RMB11,676,000. The remaining portion of the consideration was in the form of a waiver of a receivable of RMB21,540,000 due from the selling shareholder. As at 31 December 2016, the unpaid cash consideration due to Kamelon LLC amounted to USD200,000 (31 December 2015: USD200,000).

## 34 RELATED PARTY TRANSACTIONS

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

The ultimate parent company of the Group is Hilong Group Limited, which owns 51.89% (31 December 2015: 51.89%) equity interest in the Company as at 31 December 2016. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2016 and 2015, and balances arising from related party transactions as at 31 December 2016 and 2015.

## 34 RELATED PARTY TRANSACTIONS (continued)

### (a) Name and relationship with related parties

***(i) Controlling Shareholder***

Mr. Zhang Jun

***(ii) Close family member of the Controlling Shareholder***

Ms. Zhang Shuman

***(iii) Controlled by the Controlling Shareholder***

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

***(iv) Associates of the Group***

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

***(v) Joint venture of the Group***

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

***(vi) Subsidiaries of the Group***

Details of subsidiaries of the Group refer to Note 35.

### (b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2016 and 2015, the Group had the following significant transactions with related parties:

| | Year ended 31 December | |
|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 |
| **Sales of goods:** | | |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **93,329** | 58,084 |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **3,458** | 1,710 |
| Anshan Hidlong Anti-Corrosion Engineering Co., Ltd. | **–** | 1,583 |
| | **96,787** | 61,377 |
| **Rental expenses:** | | |
| Beijing Huashi Hailong Oil Investments Co., Ltd. | **6,431** | 5,398 |

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.

## 34 RELATED PARTY TRANSACTIONS (continued)

### (c) Balances with related parties

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Trade receivables due from:** | | |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **11,037** | 37,387 |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **1,832** | 929 |
| | **12,869** | 38,316 |
| **Other receivables due from:** | | |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **72,915** | 36,197 |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **29,385** | 36,305 |
| Anshan Hidlong Anti-Corrosion Engineering Co., Ltd. | **2,318** | 3,052 |
| Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd | **–** | 794 |
| | **104,618** | 76,348 |
| **Prepayment to:** | | |
| Beijing Huashi Hailong Oil Investments Co., Ltd. | **1,018** | 1,085 |
| **Other payables due to:** | | |
| Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. | **79,148** | – |
| Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. | **17,300** | 30,545 |
| Mr. Zhang Jun | **938** | 938 |
| | **97,386** | 31,483 |
| **Dividend receivables:** | | |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **1,550** | 1,550 |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **–** | 1,796 |
| | **1,550** | 3,346 |

The receivables and payables from related parties were unsecured, no interest bearing and repayable on demand.

## 34 RELATED PARTY TRANSACTIONS (continued)

### (d) Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Salaries | **8,272** | 8,120 |
| Discretionary bonus and allowances | **5,293** | 4,784 |
| Social security costs | **788** | 731 |
| Share options *(Note 18(b))* | **23** | 447 |
| | **14,376** | 14,082 |

## 35 SUBSIDIARIES

| Company name | Country/place of incorporation and operation and date of incorporation | Registered and issued/paid up capital | Effective interests held by the Group (%) 31 December | | Direct/ Indirect | Principal activities |
|---|---|---|---|---|---|---|
| | | | **2016** | 2015 | | |
| Hilong Energy Holding Limited | British Virgin Islands, 15 October 2008 | – (1 share was issued with no par value) | **100%** | 100% | Direct | Investment holding |
| Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. | the PRC, 8 March 2002 | RMB26,000,000 | **51%** | 51% | Indirect | Coating service provision |
| Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. | the PRC, 22 October 2003 | USD2,960,000 | **38.09%** | 38.09% | Indirect | Coating service provision |
| Shanghai Hilong Shine New Material Co., Ltd. | the PRC, 12 November 2003 | RMB15,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of coating materials |
| Hilong Group of Companies Ltd. | the PRC, 14 January 2005 | RMB150,000,000 | **100%** | 100% | Indirect | Distribution of oil and gas equipment |
| Hilong Drill Pipe (Wuxi) Co., Ltd. | the PRC, 30 August 2005 | USD3,600,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |

## 35 SUBSIDIARIES (continued)

| Company name | Country/place of incorporation and operation and date of incorporation | Registered and issued/paid up capital | Effective interests held by the Group (%) 31 December 2016 | 2015 | Direct/ Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Hilong Pipeline Engineering Technology Service Co., Ltd. | the PRC, 9 November 2005 | RMB50,000,000 | **100%** | 100% | Indirect | Coating service provision |
| Shanghai Boteng Welding Consumable Co., Ltd. | the PRC, 29 December 2005 | RMB3,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of hardbanding materials |
| Hilong Investment Ltd. | Malaysia, 13 September 2006 | USD100 | **100%** | 100% | Indirect | Investment holding |
| Shanghai Hilong Tubular Goods Research Institute | the PRC, 27 October 2006 | RMB5,000,000 | **100%** | 100% | Indirect | Research and development on the technology of manufacturing oil and gas equipment |
| Hilong Petroleum Pipe Company LLC | Abu Dhabi, 6 November 2006 | AED1,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |
| Shanghai Hilong Drill Pipe Co., Ltd. | the PRC, 17 November 2006 | RMB50,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |
| Jiangsu Hilong Drill Pipe Co., Ltd. | the PRC, 22 November 2006 | RMB30,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |
| Hilong Petroleum Technology & Engineering Co., Ltd. | The Republic of Kazakhstan, 28 December 2006 | KZT110,000 | **100%** | 100% | Indirect | Oilfield service provision |

## 35 SUBSIDIARIES (continued)

| Company name | Country/place of incorporation and operation and date of incorporation | Registered and issued/paid up capital | Effective interests held by the Group (%) 31 December 2016 | 2015 | Direct/ Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Hilong Petropipe Co., Ltd. | Canada, 17 April 2007 | CAD100 | **100%** | 100% | Indirect | Oil and gas equipment trading and coating service provision |
| Nantong Hilong Steel Pipe Co., Ltd. | the PRC, 30 April 2007 | RMB105,880,000 | **95%** | 95% | Indirect | Manufacture and distribution of special steel |
| Shanxi Tangrong Hilong Drill Tools Co., Ltd. | the PRC, 1 January 2008 | RMB40,000,000 | **51%** | 51% | Indirect | Manufacture and distribution of oil and gas equipment |
| Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. | the PRC, 7 January 2008 | RMB20,000,000 | **45.4%** | 45.4% | Indirect | Coating service provision |
| Hilong Energy Limited | Hong Kong, 8 July 2008 | HKD1 | **100%** | 100% | Indirect | Investment holding |
| Hilong Oil Service & Engineering Co., Ltd. | the PRC, 16 July 2008 | RMB80,000,000 | **100%** | 100% | Indirect | Oilfield service provision |
| Hilong USA LLC | USA, 9 November 2008 | USD1,030,000 | **100%** | 100% | Indirect | Oil and gas equipment trading |
| Shanghai Hilong Special Steel Pipe Co., Ltd. | the PRC, 5 January 2009 | RMB120,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |
| Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. | the PRC, 13 January 2009 | RMB10,000,000 | **55%** | 55% | Indirect | Coating service provision |
| Hilong Oil Service Ltd. | Malaysia, 4 March 2009 | USD1 | **100%** | 100% | Indirect | Oilfield service provision |

## 35 SUBSIDIARIES (continued)

| Company name | Country/place of incorporation and operation and date of incorporation | Registered and issued/paid up capital | Effective interests held by the Group (%) 31 December 2016 | 2015 | Direct/ Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Hilong Oil Service & Engineering Ecuador CIA. Ltd. | The Republic of Ecuador, 18 March 2009 | USD8,000,400 | **100%** | 100% | Indirect | Oilfield service provision |
| Shanghai Hilong Tubular Goods Manufacturing Co., Ltd. | the PRC, 16 April 2009 | RMB20,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |
| Sichuan Hilong Petroleum Technology Co., Ltd. | the PRC, 9 June 2009 | RMB6,000,000 | **100%** | 100% | Indirect | Coating service provision |
| Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. | the PRC, 18 September 2009 | RMB20,000,000 | **51%** | 51% | Indirect | Coating service provision |
| Hilong Oil Service & Engineering Nigeria Ltd. | Nigeria, 26 July 2010 | NGN30,000,000 | **100%** | 100% | Indirect | Oilfield service provision |
| Hilong Pipeline Engineering Technology Service Taicang Co., Ltd.* | the PRC, 29 September 2010 | RMB15,000,000 | **55%** | 55% | Indirect | Coating service provision |
| Hilong Oil Service Sucursal Colombia Ltd. | Columbia, 8 February 2012 | COP90,734,500 | **100%** | 100% | Indirect | Oilfield service provision |
| Shanghai Hilong Petroleum Chemicals Research Institute | the PRC, 1 November 2012 | RMB10,000,000 | **100%** | 100% | Indirect | Research and development on the technology of coating services |
| Trade House Hilong-Rus Co. Ltd. | Russia, 25 March 2013 | RUB300,000 | **100%** | 100% | Indirect | Oil and gas equipment trading |
| Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd. | Pakistan, 4 April 2013 | PKR5,000,000 | **100%** | 100% | Indirect | Oil service provision |

## 35 SUBSIDIARIES (continued)

| Company name | Country/place of incorporation and operation and date of incorporation | Registered and issued/paid up capital | Effective interests held by the Group (%) 31 December 2016 | 2015 | Direct/ Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd. | the PRC, 11 October 2013 | RMB50,000,000 | **100%** | 100% | Indirect | Research, inspection and repairment of oil and gas equipment |
| Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited | Hong Kong, 9 December 2013 | HKD1,000,000 | **70%** | 70% | Indirect | Offshore oilfield service provision |
| Hilong Marine Engineering (Hong Kong) Limited | Hong Kong, 16 December 2013 | HKD1,000,000 | **100%** | 100% | Indirect | Offshore oilfield service provision |
| Hilong USA Holding Corp. | USA, 11 February 2014 | USD10 | **100%** | 100% | Indirect | Investment holding |
| Texas Internal Pipe Coating, LLC | USA, 26 July 2012 | Nil | **100%** | 100% | Indirect | Coating service provision |
| Hilong TIPC Asset Management LLC | USA, 11 February 2014 | Nil | **100%** | 100% | Indirect | Investment holding |
| Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd. | the PRC, 17 April 2014 | RMB20,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |
| Shanghai Hilong Mine Drill Pipe Co., Ltd. | the PRC, 11 April 2014 | RMB5,000,000 | **80%** | 80% | Indirect | Manufacture and distribution of oil and gas equipment |
| Technomash LLC | Russia, 23 November 2009 | RUB62,332,000 | **100%** | 100% | Indirect | Investment holding |
| Hilong Offshore Oil Development Co., Ltd. | the PRC, 3 December 2014 | USD80,000,000 | **100%** | 100% | Indirect | Manufacture and distribution of oil and gas equipment |

## 35 SUBSIDIARIES (continued)

| Company name | Country/place of incorporation and operation and date of incorporation | Registered and issued/paid up capital | Effective interests held by the Group (%) 31 December 2016 | 2015 | Direct/ Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Hilong Drilling & Engineering Service Ltd (Malaysia) | Malaysia, 15 January 2014 | USD1,000 | **100%** | 100% | Indirect | Oilfield service provision |
| Hilong Oil Service & Engineering Albania SHPK | Albania, 28 July 2014 | ALL3,000,000 | **100%** | 100% | Indirect | Oilfield service provision |
| Hilong Petroleum Offshore Engineering Limited | the PRC, 12 March 2014 | RMB50,000,000 | **100%** | 100% | Indirect | Offshore oilfield service provision |
| Hilong Petroleum Offshore Engineering Services (Shanghai) Co.Ltd. | the PRC, 18 February 2014 | RMB15,000,000 | **70%** | 70% | Indirect | Offshore design service provision |
| Hilong Petroleum Technical Services Nigeria Limited | Nigeria, 24 March 2014 | NGN5,000,000 | **51%** | 51% | Indirect | Offshore design service provision |
| Hilong Oil Service Ltd. (Ethiopian Branch) | Ethiopia, 25 June 2015 | ETB4,000,000 | **100%** | 100% | Indirect | Oilfield service provision |
| Hilong Oil Service & Engineering Perú S.A.C. | Peru, 30 March 2015 | PEN3,000 | **100%** | 100% | Indirect | Oilfield service provision |
| Hilong Oil Service DMCC | Dubai, UAE, 28 June 2015 | AED160,000 | **100%** | 100% | Indirect | Oilfield service provision |

* Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd. was renamed as Hilong Pipeline Engineering Technology Service Taicang Co., Ltd. on 6 December 2016.

* Hilong Drilling & Supply FZE was liquidated in May 2016 and no liquidation gain or loss incurred.

* The above subsidiaries established in the PRC are in the legal form of limited liability company.

## 36 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 24 March 2017, a dividend of HKD0.0100 (equivalent to approximately RMB0.0089) per share was proposed. Details refer to Note 29.

## 37 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

| | | As at 31 December | |
|---|---|---|---|
| | Note | 2016<br>RMB'000 | 2015<br>RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | | **50,748** | 46,638 |
| **Current assets** | | | |
| Trade and other receivables | | **3,946,562** | 3,589,116 |
| Cash and cash equivalents | | **18,279** | 57,340 |
| | | **3,964,841** | 3,646,456 |
| **Total assets** | | **4,015,589** | 3,693,094 |
| **EQUITY** | | | |
| **Capital and reserve attributable to equity owners of the Company** | | | |
| Ordinary shares | | **141,976** | 141,976 |
| Other reserves | *(Note (a))* | **1,218,272** | 1,214,162 |
| Retained earnings | *(Note (a))* | **21,280** | 42,808 |
| **Total equity** | | **1,381,528** | 1,398,946 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **1,316,710** | 1,083,586 |
| **Current liabilities** | | | |
| Trade and other payables | | **500,388** | 138,701 |
| Borrowings | | **816,963** | 1,071,861 |
| | | **1,317,351** | 1,210,562 |
| **Total liabilities** | | **2,634,061** | 2,294,148 |
| **Total equity and liabilities** | | **4,015,589** | 3,693,094 |

The balance sheet of the Company was approved by the Board of Directors on 24 March 2017 and was signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

## 37 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (continued)

*Note (a)* Reserve movement of the Company

| | Retained earnings RMB'000 | Other reserves RMB'000 |
|---|---|---|
| **As at 1 January 2015** | 86,056 | 1,205,979 |
| Profit for the year | 23,677 | – |
| Dividend paid relating to 2014 | (66,925) | – |
| Pre-IPO share option plan | – | 1,254 |
| 2013 Share Option Scheme | – | 6,834 |
| Exercise of share options | – | 95 |
| **As at 31 December 2015** | 42,808 | 1,214,162 |
| **As at 1 January 2016** | **42,808** | **1,214,162** |
| Profit for the year | **7,471** | **–** |
| Dividend paid relating to 2015 | **(28,999)** | **–** |
| Pre-IPO share option plan | **–** | **140** |
| 2013 Share Option Scheme | **–** | **3,970** |
| Exercise of share options | **–** | **–** |
| **As at 31 December 2016** | **21,280** | **1,218,272** |

## 38 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on 24 March 2017.

# FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

| Consolidated Results | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **1,929,037** | 2,484,329 | 2,575,986 | 2,452,358 | 2,264,373 |
| Gross profit | **666,794** | 809,906 | 1,020,579 | 987,591 | 895,280 |
| Gross profit margin | **34.6%** | 32.6% | 39.6% | 40.3% | 39.5% |
| Operating profit | **492,461** | 424,521 | 535,792 | 504,194 | 477,526 |
| Operating profit margin | **25.5%** | 17.1% | 20.8% | 20.6% | 21.1% |
| Profit for the year | **127,909** | 174,111 | 415,174 | 370,509 | 361,427 |
| Profit attributable to: | | | | | |
| Equity owners of the Company | **124,611** | 160,893 | 397,692 | 344,630 | 345,001 |
| Non-controlling interests | **3,298** | 13,218 | 17,482 | 25,879 | 16,426 |

| Consolidated assets, equity and liabilities | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS** | | | | | |
| Non-current assets | **3,607,018** | 3,476,766 | 3,275,391 | 2,013,386 | 1,581,635 |
| Current assets | **3,691,156** | 3,587,633 | 3,351,624 | 2,793,879 | 2,458,496 |
| Total assets | **7,298,174** | 7,064,399 | 6,627,015 | 4,807,265 | 4,040,131 |
| **EQUITY AND LIABILITIES** | | | | | |
| Total equity | **3,491,878** | 3,256,136 | 3,143,249 | 2,873,587 | 2,305,434 |
| Non-current liabilities | **1,397,346** | 1,152,828 | 1,700,393 | 610,055 | 443,358 |
| Current liabilities | **2,408,950** | 2,655,435 | 1,783,373 | 1,323,623 | 1,291,339 |
| Total liabilities | **3,806,296** | 3,808,263 | 3,483,766 | 1,933,678 | 1,734,697 |
| **Total equity and liabilities** | **7,298,174** | 7,064,399 | 6,627,015 | 4,807,265 | 4,040,131 |

The above summary does not form a part of the consolidated financial statements.