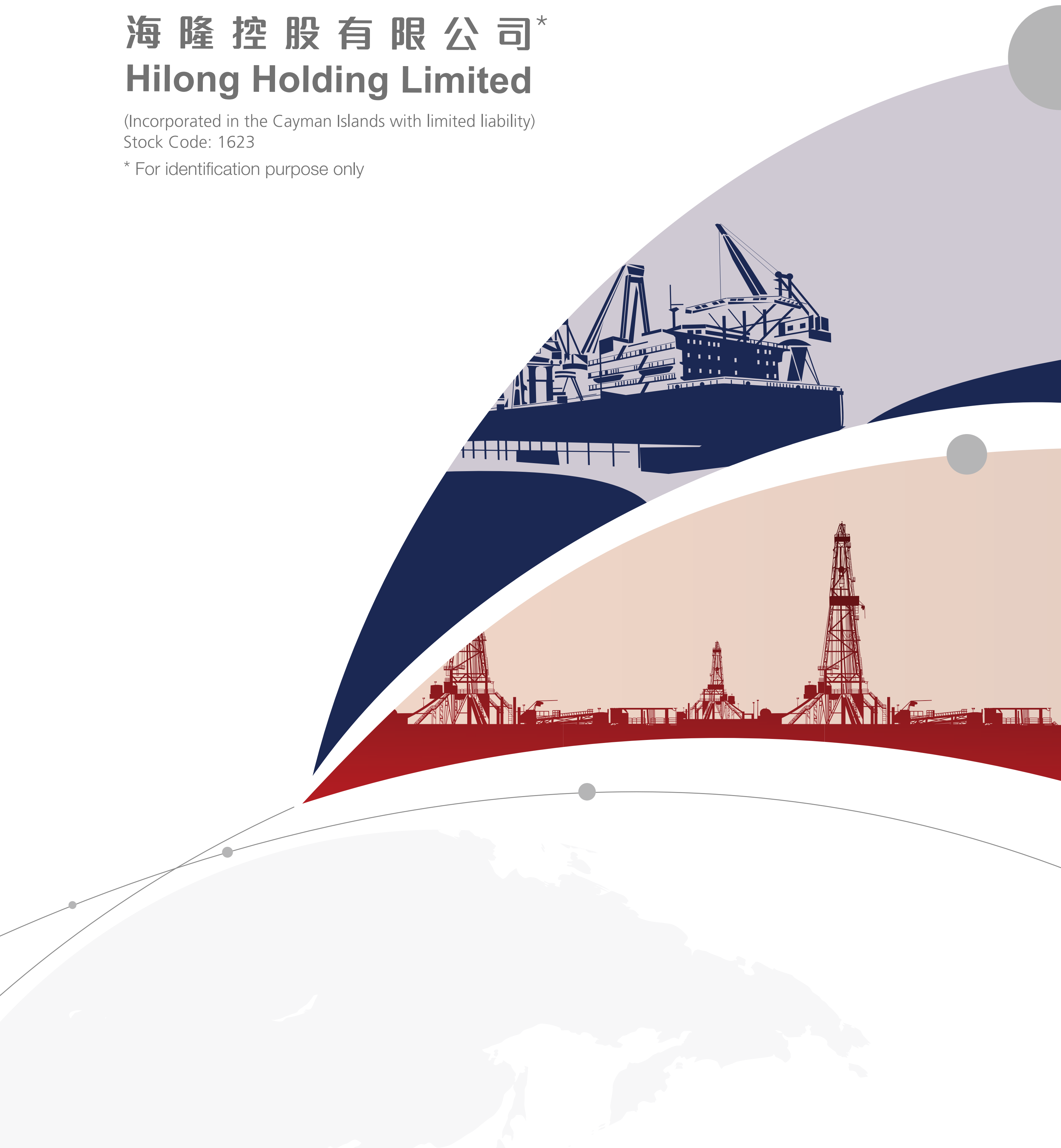
海隆控股有限公司*
Hilong Holding Limited

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

* For identification purpose only



ANNUAL REPORT 2015

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Hilong Holding Limited ("Hilong", "we" or the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 to our shareholders.

RESULTS

Overall, the Group maintained relatively stable operation in 2015 considering the persistent difficult market environment for the global oil and gas industry. The total revenue of the Group amounted to RMB2,484 million, representing a decrease of 3.6% over 2014. As the core revenue source of the Group, the oilfield services segment achieved relatively steady operation and realized a total revenue of RMB923 million, indicating a decrease of 10.6% from 2014. The oilfield equipment manufacturing and services segment has experienced great pressure in 2015 and recorded a total revenue of RMB676 million, reflecting a decrease of 46.7% over 2014. The total revenue generated by the line pipe technology and services segment reached RMB295 million in 2015, a year-on-year growth of 8.6% as compared to 2014. The offshore engineering service segment, which was officially launched in 2015, has already achieved remarkable results in its first year of operation and realized a total revenue of RMB590 million. The net profit attributable to equity owners of the Company in 2015 amounted to RMB161 million, reflecting a decrease of 59.5% as compared with 2014.

YEAR UNDER REVIEW

As a result of the persistently weak global oil and gas market throughout 2015, Hilong's business operation has experienced multiple severe challenges during this period. Nevertheless, the year of 2015 also marked Hilong's first year of operation under the new business structure after deploying new strategies. Indebted to the efforts of all employees of the Group, Hilong achieved relatively steady operation throughout the year. The oilfield services segment successfully maintained an overall stable operation while realized diversified development. Relying on existing advantages including rig fleet, customer base and regional market presence, Hilong maintained normal operation of the existing drilling rigs while obtained new contracts from new customers and marched into a new regional market Ethiopia, which ensured stable revenue generated from the drilling services. The comprehensive business also made notable breakthrough in terms of team building and market development. The oilfield equipment manufacturing and services segment, especially the drill pipe sales business, has experienced great pressure in 2015. However, Hilong still maintained a strong presence in the domestic market while actively rearranged its regional sales focus by relocating part of its drill pipe production facility to Russia with the purpose of concentrating the relevant resources and further exploring this regional market. The OCTG coating services has achieved notable progress in terms of production capacity expansion and product range extension in recent years, which further enhanced Hilong's competitiveness in this business area. The line pipe technology and services segment developed a number of new businesses to improve the overall segmental profitability. Meanwhile, through the efforts in coordinating the development of its business in both domestic and international markets, Hilong effectively diversified the revenue sources, balanced the market risks and strengthened its international competitiveness in the field of line pipe coating services. In particular, through close cooperation between the line pipe technology and services segment and the offshore engineering services segment, Hilong has provided the traditional line pipe coating services for anti-corrosion purpose and the offshore concrete weighted coating services for the Company's offshore pipe-laying construction of the CNOOC's East China Sea Project (the "CNOOC East China Sea Project") and made remarkable contributions to the successful execution of this project for the Company. Hilong officially launched the offshore engineering services segment in 2015. Using Hilong 106, Hilong successfully laid offshore pipe lines for the CNOOC East China Sea Project and the Weizhou Phase II Project, during which Hilong has created several new records in terms of construction efficiency for projects of the same category in China while ensured the construction quality. Hilong's work were highly appreciated by the customer and widely recognized by the industry.

PROSPECTS

Looking into 2016, Hilong will still face multiple challenges, but the Company is confident in maintaining stable operation of the entire business. For the oilfield services segment, the Company will focus on maintaining the steady growth of the drilling services, which is a traditional business with strong advantage under the segment, while strives to improve the capability in providing integrated services. Hilong will make every effort to ensure the stable operation of its existing rig fleet while investing in new rigs to lay the foundation for the continuous growth in the next few years. Moreover, Hilong will continue to pursue new market opportunities including exploring new regional markets, developing new business lines and engaging new customers. Despite the pressure faced by the drill pipe business, Hilong is committed to strengthening its market share and will actively seek potential market space amid the difficult market environment. The Company will carry out various strategies to solidify its leading position in the domestic market, including adjusting its product mix in domestic market by increasing the proportion of Non-API drill pipes with high added value and vigorously promoting the drill pipe leasing business. With regard to the overseas market, Hilong will continue to focus on cultivating the regional markets including Russia and the surrounding area and the Middle East, reinforcing the leading market position and continue to develop potential market demand in these regions. For the OCTG coating services segment, Hilong will continue to focus on market development and actively foster new market demands for the purpose of realizing the optimization of production capacity and achieving steady growth in the new development era. The Company will continue to implement the development strategy featured with diversification, high-end orientation and internationalization for the line pipe technology and services segment. Going forward, while continuing to actively participate in major projects in China and reinforce its presence in the domestic market, Hilong will intensify its efforts in exploring overseas markets and seek more opportunities in major international projects for its newly developed premium businesses such as CRA and CWC, in particular. Through close cooperation between the line pipe technology and services segment and the offshore engineering services segment, Hilong will strive for more line pipe coating services business opportunities in relation to the offshore pipe laying construction which will fully utilize the synergies between the two segments. Hilong will soon launch the marketing program for its new premium coating material products including the coating materials applied to offshore vehicles which were independently developed by Hilong. These new products are targeted to meet the high-end demand from international customers and will further enhance the recognition of Hilong brand in the international markets. For the newly launched offshore engineering services segment, the Company is actively studying several potential projects both in China and overseas and strives to obtain more business in 2016. In the future, Hilong will continue to strengthen its strategic cooperation with premium customers both in the domestic and international markets in order to pave the road for its entry into the broader markets.

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
Mr. Liu Haisheng (劉海勝)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Zhang Shuman (張姝嫚)

AUDIT COMMITTEE

Mr. Lee Siang Chin
(Chairman of Audit Committee)
Mr. Wang Tao (王濤)
Ms. Zhang Shuman (張姝嫚)

REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Remuneration Committee)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Lee Siang Chin

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)
Ms. Cheng Pik Yuk (鄭碧玉)

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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

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FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**417,600**	**16.8**	917,596	35.6
– Oil country tubular goods ("**OCTG**") coating services	**218,930**	**8.8**	276,429	10.7
– Drill pipe components	**11,588**	**0.5**	29,954	1.2
– Hardbanding	**9,147**	**0.4**	16,167	0.6
– Others	**19,197**	**0.7**	30,259	1.2
Subtotal	**676,462**	**27.2**	1,270,405	49.3
Line pipe technology and services				
– OCTG coating materials	**40,081**	**1.6**	43,763	1.7
– Oil and gas line pipe coating materials	**88,892**	**3.6**	46,596	1.8
– Oil and gas line pipe coating services	**127,887**	**5.1**	84,701	3.3
– Corrosion Resistant Alloy (CRA) lined pipe	**36,348**	**1.5**	72,413	2.8
– Concrete Weighted Coating (CWC) services	**–**	**–**	10,995	0.4
– Pipeline inspection services	**1,830**	**0.1**	13,176	0.5
Subtotal	**295,038**	**11.9**	271,644	10.5
Oilfield services	**922,979**	**37.2**	1,032,239	40.1
Offshore engineering services	**589,850**	**23.7**	1,698	0.1
Total revenue	**2,484,329**	**100.0**	2,575,986	100.0

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

	Year ended 31 December			
	2015		2014	
	RMB'000	**%**	RMB'000	%
The PRC	**1,253,316**	**50.4**	896,953	34.9
North and South America	**595,220**	**24.0**	903,701	35.1
Africa	**260,487**	**10.5**	220,091	8.5
Russia, Central Asia and East Europe	**173,518**	**7.0**	285,460	11.1
South Asia	**133,357**	**5.3**	114,000	4.4
Middle East	**68,317**	**2.7**	152,194	5.9
Others	**114**	**0.1**	3,587	0.1
Total	**2,484,329**	**100.0**	2,575,986	100.0

Revenue decreased by RMB91.7 million, or 3.6%, from RMB2,576.0 million in 2014 to RMB2,484.3 million in 2015. Such decrease primarily reflected a decrease in revenue from oilfield equipment manufacturing and services segment, partially offset by an increase in revenue from offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment decreased by RMB593.9 million, or 46.7%, from RMB1,270.4 million in 2014 to RMB676.5 million in 2015. Such decrease primarily reflected a decrease 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	
	2015	2014
Sales of drill pipes		
– International market		
– volume (tons)	**11,947**	24,101
– unit price (RMB/ton)	**21,152**	23,745
Subtotal (RMB'000)	**252,711**	572,279
– The PRC market		
– volume (tons)	**8,427**	15,397
– unit price (RMB/ton)	**19,567**	22,427
Subtotal (RMB'000)	**164,889**	345,317
Total (RMB'000)	**417,600**	917,596

Revenue from sales of drill pipes in the international market decreased by RMB319.6 million, or 55.8%, from RMB572.3 million in 2014 to RMB252.7 million in 2015. The decrease primarily reflected a 50.4% decrease in the volume of drill pipes sold from 24,101 tonnes in 2014 to 11,947 tonnes in 2015 and, a 10.9% decrease in average selling price sold in the international market from RMB23,745 per tonne in 2014 to RMB21,152 per tonne in 2015. The decrease in the sales volume primarily reflected the delay of capital and operation spending by international oil and gas companies. While the decrease in average selling price primarily reflected the fact that steel prices decreased in 2015 compared to that in 2014.

Revenue from sales of drill pipes in the PRC market decreased by RMB180.4 million, or 52.2%, from RMB345.3 million in 2014 to RMB164.9 million in 2015. The decrease reflected a 45.3% decrease in volume of drill pipes sold in the PRC market from 15,397 tonnes in 2014 to 8,427 tonnes in 2015 and, a 12.8% decrease in average selling price sold in the PRC market from RMB22,427 per tonne in 2014 to RMB19,567 per tonne in 2015. The decrease in the sales volume primarily reflected the delay of capital and operation spending by certain oil and gas companies in the PRC market. While the decrease in average selling price primarily reflected the fact that steel prices decreased in 2015 compared to that in 2014.

Revenue from OCTG coating services decreased by RMB57.5 million, or 20.8%, from RMB276.4 million in 2014 to RMB218.9 million in 2015. The decrease was mainly due to the decreased demands of OCTG coating services in both international market and PRC market as a result of the delay of capital and operation spending by certain international and PRC oil and gas companies in 2015.

Revenue from sales of drill pipe components decreased by RMB18.4 million or 61.3%, from RMB30.0 million in 2014 to RMB11.6 million in 2015. The decrease primarily reflected decrease in customers' demands for tool joints and pipes in 2015 compared with that in 2014.

Line pipe technology and services. Revenue from the line pipe technology and services segment increased by RMB23.4 million, or 8.6%, from RMB271.6 million in 2014 to RMB295.0 million in 2015. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating services and materials, partially offset by a decrease in the revenue derived from CRA lined pipe.

The increase in revenue from oil and gas line pipe coating services and materials primarily reflected higher demand for oil and gas line pipe coating services resulting from the steady resumption of pipe line constructions in the PRC in 2015.

The decrease in revenue from CRA lined pipe and CWC services reflected that our capacities were occupied by inter-segment projects, revenue of which was reflected in revenue from offshore engineering services in 2015.

Oilfield services. Revenue from the oilfield services segment decreased by RMB109.2 million from, or 10.6%, RMB1,032.2 million in 2014 to RMB923.0 million in 2015. Such decrease was attributable to (i) the decrease in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients, and (ii) lower oilfield services revenue generated from Kazakhstan in 2015 as compared to that in 2014.

Offshore engineering services. Newly established in 2014, the offshore engineering services segment focuses on providing offshore pipe laying and lifting and installation services, as well as providing offshore engineering design services. Revenue from the offshore engineering services segment in 2015 represented the revenue recognised from completion of the two offshore engineering, procurement, construction and installation ("**EPCI**") service contracts with CNOOC.

Cost of Sales/Services

Cost of sales/services increased by RMB119.0 million, or 7.7%, from RMB1,555.4 million in 2014 to RMB1,674.4 million in 2015. Such increase primarily reflected an increase in the cost of offshore engineering services segment, partially offset by a decrease in the cost of oilfield equipment manufacturing and services segment and oilfield services segment.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB210.7 million, or 20.6%, from RMB1,020.6 million in 2014 to RMB809.9 million in 2015. Gross profit margin decreased from 39.6% in 2014 to 32.6% in 2015.

The decrease in gross profit margin primarily reflected (i) higher portion of revenue derived from the offshore engineering services segment, which had lower gross profit margin in 2015 due to its first year of operation, (ii) decrease in gross profit margin of the oilfield equipment manufacturing and services segment, reflecting the selling price of drill pipes decreased more than the costs, and (iii) lower gross profit margin of the offshore engineering services segment and decreasing gross profit margin of the oilfield equipment manufacturing and services segment was partially offset by the increased gross profit margin of the oilfield services segment. Gross profit margin of line pipe technology and services remained stable in 2015 compared to that in 2014.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB29.6 million, or 21.3%, from RMB138.8 million in 2014 to RMB109.2 million in 2015, mainly attributable to higher portion of revenue derived from the offshore engineering services segment, which generally incurs less selling and marketing expenses as compared to that of the other three segments of the Group.

Administrative Expenses

Administrative expenses increased by RMB41.3 million, or 12.5%, from RMB331.5 million in 2014 to RMB372.8 million in 2015. Such increase primarily reflected (i) the incurrence of a full year administrative expenses in 2015 in connection with the acquisition of the Russia coating business and the US coating business in December 2014 and March 2014 respectively while only several months of administrative expenses in relation to the said acquisitions were charged in 2014; (ii) an increase in staff costs and office expenses incurred in connection with the expansion of the oilfield services business and offshore engineering services business, and (iii) an increase in expenses incurred in connection with the R&D activities for development of coating materials.

Other Gains/(Losses) – net

The Group recognised a net loss of RMB20.5 million in 2014 and a net gain of RMB96.6 million in 2015. The net gain recognised in 2015 reflected an exchange gains of RMB78.3 million from the operating activities as a combined result of the appreciation of United States Dollar and Hong Kong Dollar and the depreciation of Canadian Dollar and Naira, and government grants of RMB16.3 million in relation to new and high-technology projects. The net loss recognised in 2014 primarily reflected a net loss of RMB41.8 million from foreign exchange partially offset by RMB16.7 million in government grants in relation to new and high-technology projects.

Finance Costs – net

Finance costs-net in 2015 mainly reflected (i) the interest expense from bank borrowings, after capitalisation, of RMB123.0 million, and (ii) an exchange loss of RMB115.7 million from the financing activities resulting from the appreciation of United States Dollar and Hong Kong Dollar. Finance costs-net in 2014 mainly reflected (i) interest expense from bank borrowings, after capitalisation, of RMB87.9 million, and (ii) foreign exchange gain of RMB4.9 million.

Profit Before Income Tax

As a result of the foregoing, profit before income tax decreased from RMB461.7 million in 2014 to RMB199.4 million in 2015.

Income Tax Expense

The Group recognised income tax expense of RMB46.5 million in 2014 and RMB25.2 million in 2015. Effective tax rate was approximately 10.1% in 2014 and 12.7% in 2015. The increase in effective tax rate was mainly attributable to the change of accounting estimate on withholding tax that would be payable on the accumulated unremitted earnings generated from the Company's PRC subsidiaries. We decreased the initial accrual rate of 10% to a preferential rate of 5% in 2014 as we got an approval from the tax authorities in June 2014 to state that the dividends distribution qualified to be withheld under the preferential rate of 5%.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company decreased from RMB397.7 million in 2014 to RMB161.0 million in 2015.

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 inventory for the years indicated:

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
Inventory	**804,194**	840,540
Turnover days of inventory (in days)(1)	**179**	185

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2014 and 2015. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The decrease in turnover days of inventory from 185 days as at 31 December 2014 to 179 days as at 31 December 2015 primarily reflected (i) a decrease in inventory balance for the oilfield equipment manufacturing and services segment, and (ii) higher revenue derived from provision of services, which generally requires lesser 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	
	2015	2014
	RMB'000	RMB'000
Trade receivables		
– Due from third parties	**1,510,650**	1,492,739
– Due from related parties	**38,316**	68,052
– Less: Provision for impairment of receivables	**(27,237)**	(25,793)
Trade receivables – net	**1,521,729**	1,534,998
Other receivables		
– Due from third parties	**87,744**	78,269
– Due from related parties	**76,348**	88,363
Other receivables	**164,092**	166,632
Bills receivable	**34,615**	70,397
Prepayments	**133,837**	105,589
Dividend receivables	**3,346**	1,550
Total	**1,857,619**	1,879,166

Net trade receivables represent receivables from the sales of products and provision of services to third party customers and related parties, less impairment of receivables. The following table sets forth an ageing 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	
	2015	2014
	RMB'000	RMB'000
Trade receivables, net		
– Within 90 days	**725,537**	1,012,791
– Over 90 days and within 180 days	**264,531**	187,679
– Over 180 days and within 360 days	**236,135**	129,314
– Over 360 days and within 720 days	**231,735**	168,441
– Over 720 days	**63,791**	36,773
	1,521,729	1,534,998
Turnover days of trade receivables, net(1)	**225**	192

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2014 and 2015. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

As at 31 December 2015, trade receivables of RMB796.2 million, representing 52.3% 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 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 trade receivables from 192 days as at 31 December 2014 to 225 days as at 31 December 2015 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 2015.

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 payables, 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	
	2015 RMB'000	2014 RMB'000
Bills payable	**75,393**	128,776
Trade payables		
– Due to third parties	**702,395**	560,352
Other payables		
– Due to related parties	**31,483**	48,624
– Due to third parties	**48,853**	86,494
Staff salaries and welfare payables	**43,022**	37,122
Advance from customers	**70,913**	25,533
Interest payables	**15,286**	1,096
Accrued taxes other than income tax	**53,374**	42,145
Dividends payable	**1,463**	1,463
Other liabilities	**16,052**	10,845
	1,058,234	942,450

Trade payables represent payables due to third party suppliers and related parties. The following table sets forth an ageing 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	
	2015 RMB'000	2014 RMB'000
Trade payables, gross		
– Within 90 days	**537,038**	485,303
– Over 90 days and within 180 days	**101,272**	52,707
– Over 180 days and within 360 days	**62,662**	20,440
– Over 360 days and within 720 days	**1,275**	463
– Over 720 days	**148**	1,439
	702,395	560,352
Turnover days of trade payables(1)	**138**	106

(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 2014 and 2015. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2014 to 31 December 2015 primarily reflected the increase of unbilled payables due to suppliers of the offshore engineering services segment using percentage-of-completion method.

BUSINESS REVIEW

In 2015, the continuous decline in international oil price contributed to the persistence of extremely difficult market conditions for the global oil and gas industry and caused the significant adjustment of capital expenditure by certain customers in the industry. As a result, Hilong's business operation has experienced severe challenges during this period. Nevertheless, the year of 2015 also marked Hilong's first year of operation under the new business structure after deploying the new strategies. During the year, new businesses such as the offshore engineering services were officially launched and started to generate revenue, which injected growth impetus for the Company's sustainable development in the future. Benefiting from its diversified business portfolio, Hilong achieved relatively stable performance at the revenue level and recorded a total revenue of RMB2,484 million in 2015, representing a decrease of 3.6% over 2014. However, the net profit attributable to equity owners of the Company declined by 59.5% to RMB161 million, reflecting the impact of the tough market environment on Hilong's operational results.

Oilfield Services

Hilong's oilfield services segment successfully realized relatively steady operation in the year of 2015 and remained as the core revenue source of the Company. During the period, this segment recorded a total revenue of RMB923 million, indicating a decrease of 10.6% from 2014. This was a satisfactory result given the difficult market conditions throughout 2015. The drilling services, as the foundation of the segment, maintained stable development, and realized a total revenue of RMB691 million in the period, a year-on-year decline of 8.2% as compared to 2014. Due to the continuous slump of oil price worldwide and the consequential harsh market environment for the international oil and gas industry, most players in the industry, China or abroad, faced with the predicament of sharp decline of production volume combined with significant drop of day rate in the year of 2015. Nevertheless, Hilong successfully maintained stable work volume and relatively strong bargaining power in terms of pricing and kept up normal operation of its existing drilling rigs in the volatile market, relying on its high-end rig fleet, strong customer base and the strategic regional presence.

At the end of 2015, Hilong commenced drilling services for a new customer, Poly-GCL Petroleum Group Holdings Limited ("**Poly-GCL**"), in the newly developed regional market, Ethiopia, with two new high-end 2,000HP drilling rigs. This further enlarged the scale of Hilong's drilling rig fleet and expanded the business scope of its drilling services. Under difficult market conditions, Hilong's ability to engage new customers and win new contracts once again demonstrated its great strengths and leading market position in the international premium onshore drilling services domain as well as the recognition from the customers.

While maintaining stable operation for its traditional advantageous business, Hilong also actively developed new business lines. After a period of preparation, the development of Hilong's comprehensive services achieved a substantial breakthrough in 2015. Hilong has established teams for comprehensive services covering the service lines of drilling and completion fluids, directional drilling, horizontal drilling and well completion, and has made significant progress in terms of market development. At present, Hilong has already completed the market research for comprehensive services in several regions and obtained service contracts from various customers from both domestic and overseas markets. To be launched in 2016, the comprehensive services will contribute to the diversified revenue sources for the oilfield services segment in the new development era and further promote Hilong's transformation into an integrated oilfield services provider in the future.

Oilfield Equipment Manufacturing and Services

The operation of the oilfield equipment manufacturing and services segment has experienced great pressure in the year of 2015. During the period, this segment recorded a total revenue of RMB676 million, reflecting a decline of 46.7% over the year of 2014. The total revenue generated by the business of drill pipe and related products amounted to RMB457 million, representing a decline of 54.0% as compared to 2014. This mainly resulted from the scale back of capital expenditure by certain customers due to low international oil price and the consequential decline in demand for drill pipes. However, Hilong, as the sole strategic drill pipe supplier to Sinopec and one of the key drill pipe suppliers to CNPC, still maintained a strong presence in the domestic market with a relatively stable market share. In overseas markets, Hilong acutely captured the market dynamics and actively rearranged its regional sales focus. Under the difficult environment for the global oil and gas market, different geographical markets reacted differently. In particular, the customers in Russia and the surrounding areas still maintained relatively stable oil and gas exploration and production. In order to explore the drill pipe markets in this region more effectively, Hilong relocated part of its drill pipe production facility to Russia in the second half of 2015. This measure will enable Hilong to fully utilize the advantages associated with local production and concentrate the relevant resources on further exploring this regional market. Developing and promoting premium drill pipe products have always been given high priority by Hilong. In 2015, certain non-API drill pipe products developed by Hilong have been highly recognised by customers and widely applied across the industry while other new products were in the key stage of market promotion.

The total revenue generated from the OCTG coating services business reached RMB219 million during the period, a year-on-year decrease of 20.8% as compared to 2014. This line of business has achieved notable progress in terms of production capacity expansion and product range extension in recent years. In the past two years, Hilong completed the acquisition of Texas Internal Pipe Coating, LLC ("**TIPC**") in the U.S. and Hilong Temerso Co., Ltd.[1] in Russia. At present, these two plants are under stable operation and have played an important role in enhancing the overall market influence of Hilong brand in the regions of North America as well as Russia and the surrounding areas. Ever since the establishment of the OCTG coating services business, Hilong has maintained its leading position in the field of coating services applied on drill pipes. In recent years, Hilong keeps forging ahead and striving to expand the service scope and revenue sources of this line business. The Company has been actively promoting the application of coatings on tubings and casings and has seen some fruitful results. The above-mentioned efforts in expanding production capacity and broadening product range further strengthened Hilong's competitiveness in the field of OCTG coating services over the years

Line Pipe Technology and Services

The line pipe technology and services segment realized a total revenue of RMB295 million in 2015, representing an increase of 8.6% as compared to 2014. After entering into the year of 2015, Hilong continued to implement the development strategy emphasizing diversification, high-end orientation and internationalization for this segment. In terms of business lines, the Company developed a number of new businesses to improve the overall segmental profitability. In terms of geographic coverage, Hilong coordinated the development of its business in both domestic and international markets, which effectively diversified the revenue sources, balanced the market risks and strengthened Hilong's international competitiveness in the field of line pipe coating services.

[1] Renamed to Hilong-Yekaterinburg LLC after the completion of the acquisition

Despite the tough challenges faced by the segment in 2015, Hilong still won several orders from both China and international markets amid the depressed market environment, owing to its brilliant track record established through participation in large domestic projects and extensive experiences accumulated from overseas markets in recent years. These orders include the line pipe coating service project from China Petroleum Pipeline Material and Equipment Corporation (中油管道物資裝備總公司) and the Khazzan project from BP which Hilong jointly won with Baosteel. During the year, the most remarkable achievement of this segment was providing the traditional line pipe coating services for anti-corrosion purpose and the offshore concrete weighted coating services for the Company's offshore pipe-laying construction for CNOOC's East China Sea Project (the "**CNOOC East China Sea Project**"). Through close cooperation between the Company's line pipe technology and services segment and offshore engineering services segment, Hilong significantly improved the overall construction efficiency of the CNOOC East China Sea Project while ensured the quality of services, and made remarkable contribution to the successful execution of the project. Moreover, the line pipe technology and services team effectively strengthened its capability in providing supporting coating services for the Company's offshore pipe-laying services business through participating in this project, which helped pave the road for Hilong to provide one-stop offshore engineering services in the future.

The line pipe inspection business obtained another order from CNPC pursuant to which Hilong will provide inspection services for a specific section of Shan-Jing III Project (陝京三線). In addition, the Company has been actively pursuing potential business opportunities by following up closely with other customers. All these achievements testified Hilong's development strategy of diversification, high-end orientation and internationalization for the line pipe technology and services segment and are expected to effectively enhance the overall profitability of this segment in the medium and long-term.

Offshore Engineering Services

To explore the business opportunities in the offshore oil and gas industry has been Hilong's long-term development vision as well as one of the Company's forward-looking development strategies. In 2015, Hilong officially launched the offshore engineering services business and started a new development era of marching into the offshore-related business from onshore operation. This initiative will broaden the revenue sources, fuel the continuous growth and effectively strengthen the Company's ability in resisting risks. At the early stage of development, this new segment will rely on the offshore pipe-laying and derrick vessel, Hilong 106, and mainly undertake the businesses of offshore pipe laying and offshore transportation and installation. During the period, the total revenue generated from this segment amounted to RMB590 million. In particular, Hilong successfully laid offshore pipe lines for the CNOOC East China Sea Project and the Weizhou Phase II Project using Hilong 106. Hilong pays great attention to construction safety and efficiency. Throughout the execution of these two projects, Hilong strictly adhered to all the HSE standards and successfully ensured the quality of construction through its rigorous design proposals and professional on-site work. Hilong also set several new records in terms of construction efficiency for projects of same category in China, which were highly appreciated by the customers and widely recognised by the industry. Hilong also seized the opportunity to strengthen its core team and improve the operating system in a fast and effective manner through the successful execution of the above two major projects. Leveraging its technical strengths and effective internal communication, the offshore engineering design service team of the segment provided strong technical support for the execution of these two major contracts. The innovative design plans proposed by the team were highly recognised by CNOOC and had been testified in the construction process of these two projects. Certain design plans have already been adopted by CNOOC as the new design and construction standards for similar projects. Meanwhile, the team also won several contracts to provide offshore engineering design consultation services for external customers and received wide recognition from the industry, capitalizing on its outstanding design capability. These achievements fully reflected the value generated by the offshore engineering design service team both internally and externally. The successful execution of the aforesaid two projects made Hilong the first domestic privately run company to win and execute such sizable EPCI service contracts and also proved to the market Hilong's high-standard capability in providing integrated offshore engineering services covering engineering design, construction and all the other relevant areas. These achievements not only strengthened Hilong's market position in China but also laid a solid foundation for the Company to develop offshore engineering services business in the international markets in the future.

PROSPECTS

Looking into 2016, despite facing multiple market challenges, the Company is confident in maintaining stable operation of the overall business. Hilong has actively explored the path for reform and development and has built up a diversified business framework through restructuring existing businesses and expanding to new areas. Going forward, Hilong will continue to focus on specialized operation while endeavour to improve profitability and risk-resistant capability through maintaining a moderately diversified business portfolio in order to lay a solid foundation for the Company's development in the new stage and under the new market environment.

Oilfield Services

The oilfield services segment will keep up the momentum of steady development. Hilong considers the sustained and stable operation of the existing rig fleet as the top priority to maintain the steady operation of the entire segment. The Company will maintain smooth communications with existing customers and improve the operational efficiency of existing projects while ensuring the successful continuation of contracts. Hilong will enter Albania in 2016 and commence drilling services for Shell with a new 3,000 HP drilling rig in this new regional market of East Europe. At the same time, the two 2,000 HP drilling rigs that were put into service at the end of 2015 for Poly-GCL in Ethiopia will contribute to the revenue in 2016. All these newly-invested rigs will lay the groundwork for the sustainable growth of the drilling services for the next few years. In addition, Hilong will continue to pursue new opportunities including developing new regional markets, expanding new business lines and enlarging customer base. The Company is actively exploring several new regional markets and closely following up with certain potential customers and orders, of which Hilong is specifically promoting the business development in the Middle East region. At present, Hilong has already conducted in-depth discussions with certain customers in the Middle East and is now cooperating with these customers to complete the preparatory work including supplier qualification review. All these demonstrated that the Company is striving to establish business layout in new strategic regions in a short time and seek 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 as a starting point, will further foster the development of comprehensive services business. At this moment, Hilong's comprehensive services has taken shape and the Company has already obtained several sizeable contracts in both domestic and overseas markets. Hilong will make every effort to ensure the successful execution of these projects in 2016 in order to establish a solid track record and sound reputation in the industry and pave the road for market expansion in the future. In addition, Hilong cooperated with a local partner in Nigeria whereby Hilong manages the equipment and facilities provided by the partner and successfully won a service contract for operating a swamp drilling rig. This represented Hilong's exploration of new business model, which reduces Hilong's operational costs and risks when expanding into a new business area on the one hand, and enables Hilong to fully utilize its advantages in technology and management on the other. The execution of this contract will commence in 2016. In terms of trading and related services, several contracts signed in 2015 will be executed during 2016 and will bring in additional revenue for this segment. The development of these new businesses will generate diversified sources of revenue for the oilfield services segment and will propel Hilong to transform into an integrated oilfield services provider in the long run.

Oilfield Equipment Manufacturing and Services

Although the drill pipes business is still facing great pressure, Hilong is committed to strengthen its market share and will actively seek potential market opportunities amid difficult market environment. As Sinopec's sole strategic drill pipe supplier and one of CNPC's key drill pipe suppliers, Hilong has always been well positioned in the domestic market with a solid customer base. Relying on its years of cooperation with the key customers, its thorough understanding of the domestic market and strong R&D capability, Hilong will carry out various strategies to strengthen its leading position in the China market. On one hand, Hilong will adjust its product mix in the domestic market by increasing the sales proportion of Non-API drill pipes with highly added value in order to further improve the level and profitability of its domestic sales. On the other hand, Hilong will vigorously impel the drill pipe leasing business, with an aim to enhance customer experience, strengthen customer relationships and promote new products through the custom-made services. With regard to the overseas market, Hilong will focus on cultivating the regional markets including Russia and its surrounding area, reinforcing the leading market position in this region and continuing to develop potential market demand. Currently under the stage of commissioning, the drill pipe production line in Russia will officially commence production in mid 2016 and is expected to contribute revenue within the year after a period of trial production. Moreover, Hilong will further explore the Middle East market and make every effort to gain more exposure and market share in the local high-end market.

The OCTG coating services business is expected to maintain steady development. This line of business is one of Hilong's traditional pillar businesses with strong advantage and the most remarkable profitability. In recent years, Hilong has deployed new production capacity or upgraded the existing production facility for the OCTG coating services business in key strategic locations both domestically and internationally in a planned manner. At present, Hilong is fully equipped with the capacity and capability of applying coatings for the entire series of OCTG pipes and various new types of pipes. This significantly expands the business scope of Hilong's OCTG coating services, effectively improves production efficiency, and prepares Hilong in respects of technologies and production capability to seize the opportunities brought by the growing demand for high-end coatings applied onto tubings and casings and other new types of pipes. Hilong will continue to focus on market development and actively nurture new market demands to realize optimization of production capacity and achieve steady growth in the new development era.

Line Pipe Technology and Services

Hilong will continue to carry out the development strategy featured with diversification, high-end orientation and internationalization for the line pipe technology and services segment. Over the past few years, Hilong provided coating services for several line pipe construction projects in overseas markets, through which it has accumulated extensive experience and established excellent reputation for its qualification and capability widely recognised by the international customers. Going forward, Hilong will intensify its efforts to explore overseas markets while continuing to actively participate in the major projects in China and reinforce its presence in the domestic market. In particular, Hilong will strive to seek more opportunities in participating in major international projects for its newly developed premium CRA and CWC businesses and build up a track record for future development.

The seamless cooperation between line pipe technology and services segment and offshore engineering services segment in the execution of the offshore pipe laying construction for the CNOOC East China Sea Project has set an example for synergy between Hilong's different business segments. Going forward, the two segments will continue the close cooperation and strive for more line pipe coating services business for offshore pipe laying constructions so as to achieve synergy between the segments. The Company will also expedite the development of its line pipe inspection business through further developing the market and strengthening the market presence. All these efforts will help Hilong to expand and improve the value chain for line pipe services and prepare Hilong in growing into a one-stop solution provider of line pipe services with all speed. With regard to cooperation within the industry, Hilong has entered into framework agreements of strategic cooperation with China Petroleum Pipeline Bureau (中國石油天然氣管道局) and CNPC Baoji Petroleum Steel Pipe Co., Ltd. (中國石油寶雞石油鋼管有限責任公司), and will collaborate with CNPC in the areas such as traditional line pipe coating for anti-corrosion purpose, offshore concrete weighted coating and line pipe inspection. This will enable Hilong to further elevate the cooperation level and expand the scope of cooperation with CNPC. In addition, Hilong has independently developed several new premium coating material products including the coating materials applied to offshore vehicles. At present, the Company has already completed the research work and will obtain the relevant certificates and officially launch the marketing of these products soon. These new products are targeted to meet the high-end demand from international customers and will further enhance the recognition of Hilong brand in the international markets.

Offshore Engineering Services

The offshore pipe-laying and derrick vessel-Hilong 106 successfully completed the offshore pipe-laying construction for CNOOC's Weizhou Phase II Project and CNOOC East China Sea Project in 2015 and established a remarkable track record for Hilong in the field of offshore engineering services. Currently, the Company is actively studying several potential projects both in China and abroad and strives to obtain more business opportunities in 2016. The offshore engineering design services business will also speed up its pace of development and further expand its design consultation services targeted at external parties while continuing to provide strong technical support for internal projects. Hilong also signed a framework agreement of strategic cooperation with CNPC Offshore Engineering Company Limited (中國石油集團海洋工程有限公司) ("**CPOE**") in 2015, and will conduct cooperation with CPOE in the fields including offshore engineering design and construction. The agreement represents another strategic alliance between Hilong and the top domestic customers in the field of offshore engineering services after its winning of the two EPCI service contracts from CNOOC and the entering into an agreement with CNOOC to provide offshore engineering design consultation services. All these accomplishments achieved during the first year of operation of the offshore engineering services segment fully reflected the wide recognition of Hilong's high-standard capability of providing integrated offshore engineering services in the domestic market. Going forward, Hilong will continue to strengthen its strategic cooperation with premium domestic customers while actively pursuing communication and cooperation with the high-profile international players in this field in order to pave the road to enter into the international markets.

We firmly believe that, with our endeavors, Hilong will continue to create stable returns to the shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Net cash from operating activities	**484,774**	260,734
Net cash used in investing activities	**(235,795)**	(1,319,978)
Net cash from financing activities	**12,791**	1,213,254
Net increase in cash and cash equivalents	**261,770**	154,010
Exchange gains on cash and cash equivalents	**11,537**	3,158
Cash and cash equivalents at beginning of the year	**548,057**	390,889
Cash and cash equivalents at end of the year	**821,364**	548,057

Operating Activities

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.

Net cash from operating activities in 2014 was RMB260.7 million, representing cash generated from operations of RMB442.2 million, partially offset by the interest payment of RMB89.2 million and income tax payment of RMB92.2 million.

Investing Activities

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

Net cash used in investing activities in 2014 was RMB1,320.0 million, primarily reflecting payment of RMB1,239.2 million for purchases of property, plant and equipment, and payment of RMB79.3 million for acquisition of subsidiaries, net of cash acquired.

Financing Activities

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.

Net cash generated from financing activities in 2014 was RMB1,213.3 million, primarily reflecting proceeds of RMB2,038.5 million from borrowings, offset by (i) repayment of borrowings of RMB715.5 million, and (ii) dividends payment of RMB103.9 million.

CAPITAL EXPENDITURES

Capital expenditures were RMB1,296.4 million and RMB306.5 million in 2014 and 2015 respectively. The significant decrease in capital expenditures in 2015 primarily reflected the one-off procurement of pipe-lay barge for the offshore engineering services segment in 2014.

INDEBTEDNESS

As at 31 December 2015, the outstanding indebtedness of RMB2,676.9 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	
	2015	2014
	RMB'000	RMB'000
Non-current		
Bank borrowings – unsecured	**2,156,532**	1,891,464
Less: Current portion of non-current borrowings	**(1,072,068)**	(261,503)
	1,084,464	1,629,961
Current		
Bank borrowings – secured	**50,377**	22,028
Bank borrowings – unsecured	**470,003**	549,081
Current portion of non-current borrowing	**1,072,068**	261,503
	1,592,448	832,612
	2,676,912	2,462,573

The bank borrowings of RMB50.4 million were secured by certain bank deposits of the Group, with a carrying amount of RMB32.5 million as at 31 December 2015.

GEARING RATIO

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

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

The gearing ratios as at 31 December 2015 and 2014 are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Total borrowings	**2,676,912**	2,462,573
Less: Cash and cash equivalents	**(821,364)**	(548,057)
Net debt	**1,855,548**	1,914,516
Total equity	**3,256,136**	3,143,249
Total capital	**5,111,684**	5,057,765
Gearing ratio	**36.30%**	37.85%

FOREIGN EXCHANGE

The Group mainly operates in the PRC, and also has network in various countries and regions around the world. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar ("USD"). Foreign exchange risk arises from recognised 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 30.4% appreciation of RMB against the USD from 21 July 2005 to 31 December 2015. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 47.9% and 55.8% of the total revenue of the Company in 2014 and 2015, respectively.

STAFF AND REMUNERATION POLICY

As at 31 December 2015, the total number of full-time employees employed by the Group was 2,632 (31 December 2014: 2,658). The following table sets forth the number of the Group's fulltime employees by area of responsibility as at 31 December 2015:

On-site workers	1,617
Administrative	448
Research and development	151
Engineering and technical support	248
Company management	43
Sales, marketing and after-sales services	125
	2,632

Employee costs excluding the Directors' remuneration totaled RMB487,087,000 for the year of 2015.

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

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

The Company adopted a new share option scheme on 10 May 2013. On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this annual report, 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)	48	Chairman, Executive Director and chief executive officer
WANG Tao (汪濤)	52	Executive Director and executive president
JI Min (紀敏)*	40	Executive Director and chief financial officer
ZHANG Shuman (張姝嫚)	42	Non-executive Director and chief strategy officer
YUAN Pengbin (袁鵬斌)	57	Non-executive Director
LI Huaiqi (李懷奇)	66	Non-executive Director
YANG Qingli (楊慶理)**	60	Non-executive Director
WANG Tao (王濤)	69	Independent Non-executive Director
LEE Siang Chin	67	Independent Non-executive Director
LIU Haisheng (劉海勝)	69	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 48, 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 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 23 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 one of 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, chief strategy officer and joint company secretary 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 52, is an Executive Director, executive president and a member of the nomination committee of the Company. He was appointed as Non-executive Director on 2 December 2010 and was re-designated as Executive Director on 29 March 2012. He also serves as directors of Hilong Drilling & Supply FZE and Hilong Oil Service and Engineering Nigeria Limited since 2010. Mr. Wang has over 27 years of management experience in the petroleum industry and he served as vice general manager of Hilong Group of Companies Ltd. from 2006 to February 2012 and he has served as the executive president 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, he served as 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.

* Mr. JI Min resigned as an executive Director and chief financial officer with effect from 27 May 2015.

** Mr. Yang Qingli was appointed as a Non-executive Director with effect from 21 August 2015.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 42, is a Non-executive Director, the chief strategy officer, joint company secretary 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 Executive Director on 2 December 2010. She was re-designated as a Non-executive Director of the Company on 29 March 2012. Ms. Zhang has over 19 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 57, is a Non-executive Director and a member of the remuneration committee of the Company. He was appointed as 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 30 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 will continue to hold managerial positions in our subsidiaries, his role at the Company level will be 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. He 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 66, is a Non-executive Director of the Company. He was appointed as 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 China National Offshore Oil Corporation ("CNOOC") Nanhai East Corporation. In 1984, Mr. Li served as Deputy Director-General of the President's Office of CNOOC Nanhai East Corporation. From 1985 to 1990, he served as 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, he served as Deputy Director-General and Director-General of the International Cooperation Department of CNPC. In August 2001, he was appointed as Secretary to the Board of PetroChina Co., Ltd. From June 2009, he was the Deputy-Director General of Advisory Center and Project Committee in CNPC. He has hold the current position as the President of Chinese National Committee of World Petroleum Council since July 2011. In 2008, Mr. Li was named "Top 100 Secretary 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 "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 30 years of experience in the 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", 中國石油天然氣集團公司) 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 (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 69, 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 Independent Non-executive Director on 2 December 2010. Mr. Wang has over 40 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 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 general manager, chairman and senior engineer (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 (西安電子科技大學)) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

Mr. LEE Siang Chin, aged 67, is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. 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, Tune Insurance Malaysia 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 had previously served as chairman and managing director of Surf88.Com Sdn. Bhd. from 1999 to 2004 and managing director of AmSecurities Sdn. Bhd. from 1986 to 1999, 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 69, is an Independent Non-executive Director of the Company and a member of the Nomination Committee. He was appointed as 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 worked as Office Director of the Second Machinery Factory of China National Petroleum Corporation ("CNPC") Changqing Oil Field, Plant Director, Deputy Factory Director and Factory Director of the First Machinery Factory of Huabei Oil Field, Deputy Director and Director of Huabei Petroleum Administration Bureau, Director of Planning Department and Assistant to General Manager of CNPC. He is 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 38 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 knowledge of macro economy. Mr. Liu graduated from Beijing Institute of Petroleum in 1970.

SENIOR MANAGEMENT

For biographies of Mr. ZHANG Jun and Mr. WANG Tao (汪濤), see "– BOARD OF DIRECTORS – Executive Directors". For biography of Ms. ZHANG Shuman, see "– BOARD OF DIRECTORS – Non-executive Directors". Other members of our senior management team consist of the following:

Mr. CHEN Su (陳甦), aged 57, has been a director of Hilong Oil Service and Engineering Co., Ltd. since 2008. Mr. Chen has over 31 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 49, 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 & Engineering Co., Ltd. since 2008. Mr. Dai has over 25 years of experience in the petroleum industry. Prior to joining our 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 ("GWDC", 中油長城鑽井有限公司) as its co-manager of marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by GWDC. In 2008, he worked as assistant to 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 46, 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 23 years of experience in the petroleum industry. Prior to joining our 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 from 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 46, has been the chairman and general manager of Shanghai Boteng Welding Consumables 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 19 years of experience in the petroleum industry. Prior to joining our Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received from Southwest Petroleum University (西南石油學院) a Bachelor's degree in Engineering 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 52, 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 10 years of experience in the petroleum industry. Prior to joining our 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 CNPC Bohai Petroleum Equipment Manufacturing Company Limited First Machinery Factory (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 an "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 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 an "Outstanding Entrepreneur in Hebei Province" (河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

Mr. XIAO Long (肖龍), aged 54, 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 our 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 field 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 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 managed a number of large-scale offshore projects in respect of construction project management. From 2012 to 2013, he served as vice president of Rongsheng Offshore & Marine Pte. Ltd., Singapore 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 responsible for project management for construction of offshore vessels and equipment. Mr. Xiao obtained a Bachelor's degree in Engineering from Guangdong Mechanics Institute (廣東機械學院, now known as Guangdong University of Technology (廣東工業大學)) in 1985.

JOINT COMPANY SECRETARIES

Ms. CHENG Pik Yuk (鄭碧玉), aged 58, is a corporate services director of Tricor Services Limited, providing corporate secretarial services to client companies. Prior to joining the Tricor Group, she was a senior manager of the company secretarial department of Deloitte Touche Tohmatsu and also served as the departmental manager. Ms. Cheng has worked in the company secretarial departments of a number of international accounting firms and has over 30 years of experience in the company secretarial field. She has been providing corporate secretarial support services to listed companies and multi-national groups. Ms. Cheng is a Fellow Member of The Institute of Chartered Secretaries and Administrators in the U.K. and The Hong Kong Institute of Chartered Secretaries ("HKICS"), and is a holder of the Practitioner's Endorsement of the HKICS. She was appointed as a joint company secretary of the Company on 10 February 2011.

Ms. ZHANG Shuman (張姝嫚), aged 42, was appointed as a joint company secretary of the Company on 10 February 2011. Ms. Zhang has over 7 years of experience in corporate secretarial services. She acted as secretary to the board of directors of UMW Ace (L) Ltd. from 2003 to 2006. For further details regarding Ms. Zhang's experience, see "– BOARD OF DIRECTORS – Non-executive Directors" above.

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2015.

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 2015 (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 save for the deviation from code provision A.2.1 which deviation 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 regarding directors securities transactions.

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 on terms no less exacting than the Model Code (the "Employees Written Guidelines") 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 members, consisting of two executive directors, four non-executive directors and three independent non-executive directors.

The Board of the Company comprises the following directors:

	Ethnicity (Nationality)	Age	Length of Service (Since)
Executive Directors:			
Mr. Zhang Jun *(Chairman and Chief Executive Officer)*	Chinese	48	2001
Mr. Wang Tao (汪濤) *(Executive President)*	Chinese	52	2006
Non-executive Directors:			
Ms. Zhang Shuman *(Chief Strategy Officer)*	Chinese	42	2008
Mr. Yuan Pengbin	Chinese	57	2005
Mr. Li Huaiqi	Chinese	66	2011
Mr. Yang Qingli(1)	Chinese	60	2015
Independent Non-executive Directors:			
Mr. Wang Tao (王濤)	Chinese	69	2010
Mr. Lee Siang Chin	Malaysian	67	2010
Mr. Liu Haisheng	Chinese	69	2012

(1) Mr. Yang Qingli was appointed as a non-executive Director with effect from 21 August 2015.

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 whom 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 leadership and control of the Company and 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 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 responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Each newly appointed director receives 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. A training on responsibilities for listed issuers and its directors, continuing connected transactions and continuing obligations conducted by the Company's legal advisor was provided to Mr. Yang Qingli, the newly appointed director, and also Ms. Zhang Shuman, non-executive director and joint company secretary.

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 issued 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 review on disclosure of financial information and regulatory updates on rules and regulations were provided to directors, namely Mr. Zhang Jun, Mr. Wang Tao (汪濤), Mr. Ji Min (resigned with effect from 27 May 2015), Ms. Zhang Shuman, Mr. Yuan Pengbin, Mr. Li Huaiqi, Mr. Wang Tao (王濤), Mr. Lee Siang Chin and Mr. Liu Haisheng for their reference and studying. In addition, a training on risk management and internal control, disclosure of directors' interests and inside information conducted by the Company's legal advisor was provided to all directors (including the newly appointed director, Mr. Yang Qingli) in December 2015.

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 page 4 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, making recommendation to the Board on the re-appointment, remuneration and terms of engagement of external auditor and monitoring the independence of external auditor, and reviewing arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, risk management and internal control or other matters of the Company.

During the year, the Audit Committee held three meetings to review annual financial results and report in respect of the year ended 31 December 2014, interim financial results and report in respect of the six months ended 30 June 2015, the unaudited consolidated financial statements for the nine months ended 30 September 2015, 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.

In December 2015, the Board has adopted a new terms of reference for the Audit Committee to incorporate the changes brought by the amendments to the CG Code relating to risk management and internal control.

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 held three meetings to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the directors and senior management, the remuneration package of the newly appointed non-executive director, increase in annual fees for the independent non-executive directors and other related matters, and to evaluate and assess the effectiveness of the Remuneration Committee and the adequacy of the terms of reference of the Remuneration Committee and consider whether any update or amendment is required.

Nomination Committee

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

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

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

During the year, the Nomination Committee met twice to review the structure, size, composition and diversity of the Board, the “Board Diversity Policy” and consider whether any update or amendment is required, the independence of the independent non-executive directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting, and to evaluate and assess the effectiveness of the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required. Also, the Nomination Committee submitted the resignation of Mr. Ji Min as an executive director and chief financial officer in May 2015 and also the proposal for the appointment of Mr. Yang Qingli as the non-executive director to the Board for review and approval in August 2015.

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 RECORD 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	2/2	1/1
Mr. Ji Min[(1)]	1/1[(2)]	N/A	N/A	N/A	N/A
Ms. Zhang Shuman	4/4	3/3	N/A	N/A	1/1
Mr. Yuan Pengbin	3/4	N/A	3/3	N/A	0/1
Mr. Li Huaiqi	3/4	N/A	N/A	N/A	1/1
Mr. Yang Qingli[(3)]	3/3[(4)]	N/A	N/A	N/A	N/A
Mr. Wang Tao (王濤)	4/4	3/3	3/3	2/2	1/1
Mr. Lee Siang Chin	4/4	3/3	3/3	N/A	0/1
Mr. Liu Haisheng	4/4	N/A	N/A	2/2	1/1

(1) Resigned with effect from 27 May 2015
(2) Up to 27 May 2015
(3) Appointed with effect from 21 August 2015
(4) Since 21 August 2015

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 2015.

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 56 to 57 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2015, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	3,250
Non-audit Services	
– Tax services	133
– Other non-audit services	297
Total	3,680

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and Company's assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis. The Group has developed its systems of internal control and risk management. The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

During the year ended 31 December 2015, the Board conducted a review of the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and is satisfied with its effectiveness.

COMPANY SECRETARY

Ms. Cheng Pik Yuk of Tricor Services Limited, 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 Joint Company Secretary) and Mr. Delphi Bao Zhikan (General Counsel). During the year, our joint company secretaries have undertaken over 15 hours of professional training to update their skill and knowledge.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

Address: Suite 3206, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
(For the attention of Ms. Zhang Shuman, Joint Company Secretary)
Fax: +852 2506 0109
Email: amyszhang@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.

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 2015.

PRINCIPAL ACTIVITIES

The Group is an integrated oilfield equipment and services provider with a focus on oilfield services, line pipe technology services, oilfield equipment manufacturing and services and offshore engineering services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 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 22 of this annual report. These constitute 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 2015, the Group has been committed in 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 CNPC HSE Conformity Center (北京中油健康安全環境認證中心) and ABS Quality Evaluations Inc. that its environmental management system, particularly in relation to its drilling, offshore pipe-lying, offshore technical service activities, is 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 harzardous chemicals. As a result, our employees may face the risk of various work-related injuries and accidents. We are subject to the 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 CNPC HSE Conformity Center (北京中油健康安全環境認證中心) that its health and safety management system, particularly in relation to its drilling, offshore pipe-lying, offshore technical service activities, is 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 2015, 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 office, 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 2015, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations, in particular those 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 2015, 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 2015, the Group obtained necessary production permits from the relevant authorities before commencing the production of hazardous chemical and special equipments.

On employee 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 employee rights and interests. All full-time employees in the PRC are covered by a state-managed retirement benefit plan operation by the government of the PRC, and are entitled to an annual pension. The Group has made annual contributions to the state-managed retirement benefit as required under the relevant law. The Group has also made contributions to a defined contribution mandatory provident fund for all full-time employees in Hong Kong.

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

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

KEY RELATIONSHIPS WITH STAKEHOLDERS

The Company has always been actively fulfilling its social responsibility. The Group, with high quality products and services, is committed to create 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 trend. 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 is 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 providing opportunities within the Group for career advancement.

Relationship with shareholders – The Group recognizes the importance to protect the interests of shareholders and the importance of having an effective communication with them. The Group believes communication with its shareholders is a two-way process and thrives to ensure the quality and effectiveness of information disclosure, maintain regular dialogue with the 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 participate in the 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 staff to participate in a wide range of charitable events, concern for the community will be raised and boosted.

KEY RISKS AND UNCERTAINTIES

Decline in domestic and international oil and natural gas prices – The current economic condition, market uncertainty and various factors that are beyond our control including actions by major oil-producing countries and the price and availability of other energy resources have reduced worldwide demand for oil and natural gas and resulted in 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 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 oilfield 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 oilfields 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, has unsatisfactory financial results. In the event that such status is suspended or terminated by our key customers, or 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 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, revenue from our oilfield services segment was primarily derived from 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's intends to expand the 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 22 of this annual report.

Subsequent Events

Please refer to note 37 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 2015, a final dividend of HK5.0 cents per share, amounting to a total dividend of approximately HK$84.8 million (equivalent to approximately RMB66.9 million) for the year ended 31 December 2014, was paid to shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK2.0 cents per share, amounting to approximately HK$33.9 million (equivalent to approximately RMB28.4 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2015, 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, 12 July 2016 to the shareholders of the Company whose names appear on the register of members of the Company as at Tuesday, 5 July 2016.

RESERVES

Details of movement in the reserves of the Company level and the Group for the year ended 31 December 2015 are set out in notes 18 and 38 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2015, the reserves of the Company available for distribution to shareholders amounted to RMB1,215.1 million (2014: RMB1,258.2 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 23.7% and 46.7% of the Group's total revenue from sales of goods or rendering of services respectively (2014: 8.2% and 26.9%). The aggregate purchases attributable to the Group's largest supplier and five largest suppliers were 4.3% and 14.7% of the Group's total purchases respectively during the year under review (2014: 10.0% and 33.1%).

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 2015 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[1]:

Executive Directors

Mr. Zhang Jun (張軍)
Mr. Wang Tao (汪濤)
Mr. Ji Min (紀敏) [2]

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) [3]

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Lee Siang Chin
Mr. Liu Haisheng (劉海勝)

(1) For the information in relation to the Directors of the Company as of the date of this annual report, please refer to the section headed "Corporate Information" as set out on page 4 of this annual report.

(2) Mr. Ji Min resigned as an Executive Director and Chief Financial Officer with effect from 27 May 2015.

(3) Mr. Yang Qingli was appointed as a Non-executive Director with effect from 21 August 2015.

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.

Pursuant to article 83(3) of the Articles, Mr. Yang Qingli will retire as Director at the forthcoming AGM of the Company, whereas Mr. Wang Tao (王濤), Mr. Lee Siang Chin and Mr. Liu Haisheng 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. 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 they agreed to act as executive directors 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 2015, the total number of full-time employees of the Group was 2,632 (31 December 2014: 2,658). Employee costs excluding the Directors' remuneration totaled RMB487,087,000 for the year of 2015. The Group recruited and promoted individual persons according to their strength 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 2015 were within the following bands:

	Number of Senior Management
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	5
	6

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, as at 31 December 2015 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 2015.

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 2015 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, the Post-IPO share option scheme and save as disclosed in the section headed "Directors' interests and short positions in the securities of the Company and its associated corporations", 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 2015.

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 recognize 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 optimize 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 December 31, 2015, the remaining life of the Pre-IPO Scheme was approximately five 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:

	Number of share options								
Category/ name of grantees	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2015	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Directors									
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Ji Min[(1)]	640,000	–	–	(640,000)	0	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	6,140,000	–	–	(640,000)	5,500,000				
Employees of the Group other than Directors									
In aggregate	25,454,300	–	(48,000)	(162,400)	25,243,900	2.60	2.92	1 January 2011	21 April 2012– 31 December 2020
Total	31,594,300	–	(48,000)	(802,400)	30,743,900				

(1) Mr. Ji Min resigned as a director of the Company with effect from 27 May 2015.

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 seven years and five months as at 31 December 2015. 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-fulfilment 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:

	Number of share options									
Category/ name of grantees	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2015	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	19,563,400	–	–	(1,503,100)	18,060,300	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 2015, 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. Lee Siang Chin	Interest of controlled corporation	500,000[(4)]	0.029%
Mr. Yang Qingli	Interest of spouse	77,000[(5)]	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 Stenying Holdings Ltd., a company controlled by Mr. Lee Siang Chin and the entire share capital of which is held by Ms. Koo Yoon Kin, spouse of Mr. Lee Siang Chin. Mr. Lee Siang Chin is therefore deemed to be interested in these shares.

(5) 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 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 the 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 2015, 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 position 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%
The Capital Group Companies, Inc.	Interest of controlled corporation	101,567,000(4)	5.99%
Wellington Management Group LLP	Interest of controlled corporation	136,941,000(5)	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) 26,422,000 shares, 19,993,000 shares, 1,963,000 shares and 53,189,000 shares are held by Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International Sarl respectively, each of which is 100% controlled by Capital Group International, Inc. which is then 100% controlled by Capital Research and Management Company, which in turn is 100% controlled by The Capital Group Companies, Inc.

(5) 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 2015 is contained in note 35 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 35 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 disclose 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 "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 a new tenancy agreement (the "New Tenancy Agreement") with Beijing Huashi Investment, as landlord, to renew the existing lease under the Tenancy Agreement for a term of three years from 1 January 2014 to 31 December 2016 upon expiry of the Tenancy Agreement on 31 December 2013.

As at 31 December 2015, 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 lease under the New Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules.

The monthly rental for 2015 under the New Tenancy Agreement is RMB449,853 (excluding management fees and utility fees). The parties agreed that the increase of the annual rent will not be more than 3% per annum. The annual caps for the lease under the New Tenancy Agreement for the three years ending 31 December 2014, 2015 and 2016 are RMB5,241,006, RMB5,398,236, and RMB5,560,183 respectively. The annual caps were determined based on the 2014 annual rental payable by Hilong Oil Service to Beijing Huashi Investment and the annual rental increase limits under the New Tenancy Agreement. The 2014 annual rental and the annual rental increase limits were determined through arm's length negotiations between the parties with reference to the prevailing market rate for comparable premises and the annual rental under the Tenancy Agreement.

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 New Tenancy Agreement are exempt from the shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

On 18 March 2016, Beijing Huashi Investment and Hilong Oil Service entered into a supplemental agreement to the New Tenancy Agreement pursuant to which the parties agreed that the total leasing area of the office premises increases from a gross floor area of 1,543.97 square meters to 1,850.32 square meters with effect from 18 March 2016. As a result of the increase in the total leasing area, the monthly rental increases from RMB463,349 to RMB555,285 with effect from 18 March 2016. In view of the increase in total leasing area, the Directors expected that the original annual cap for 2016 in the amount of RMB5,560,183 would not be sufficient and revised the annual cap for 2016 to RMB6,430,681.

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.

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 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%.

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.

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 together with interest and all other amounts accrued thereon may become immediately due and payable.

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 2015.

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 2015. 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 2015, 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 29 to 36 of this annual report.

CHANGES IN DIRECTORS' INFORMATION

There were changes in information of Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2015 Interim Report of the Company as follows:

– The director's fee for each of Mr. Wang Tao (王濤), Mr. Lee Siang Chin and Mr. Liu Haisheng, Independent Non-executive Directors, under the respective letters of appointment was increased from HK$150,000 per annum to RMB150,000 per annum with effect from 1 January 2016.

AUDITOR

The financial statements for the year ended 31 December 2015 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, 18 March 2016

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries set out on pages 58 to 143, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2016

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

		As at 31 December	
	Note	**2015 RMB'000**	2014 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**3,037,789**	2,856,379
Lease prepayments	*7*	**90,694**	92,821
Intangible assets	*8*	**156,355**	159,377
Investments accounted for using equity method	*9*	**59,221**	56,660
Deferred income tax assets	*11*	**131,144**	109,355
Other long-term assets	*10*	**1,563**	799
		3,476,766	3,275,391
Current assets			
Inventories	*13*	**804,194**	840,540
Trade and other receivables	*14*	**1,857,619**	1,879,166
Current income tax recoverable		**32,588**	–
Restricted cash	*15*	**71,868**	83,861
Cash and cash equivalents	*15*	**821,364**	548,057
		3,587,633	3,351,624
Total assets		**7,064,399**	6,627,015
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*17*	**141,976**	141,972
Other reserves	*18*	**1,127,528**	1,117,187
Currency translation differences		**(117,445)**	(118,809)
Retained earnings		**1,869,990**	1,778,090
		3,022,049	2,918,440
Non-controlling interests		**234,087**	224,809
Total equity		**3,256,136**	3,143,249

		As at 31 December	
	Note	**2015 RMB'000**	2014 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	**1,084,464**	1,629,961
Deferred income tax liabilities	*11*	**45,193**	44,448
Derivative financial instruments	*16*	**–**	2,406
Deferred revenue	*20*	**23,171**	23,578
		1,152,828	1,700,393
Current liabilities			
Trade and other payables	*21*	**1,058,234**	942,450
Current income tax liabilities		**3,625**	6,953
Borrowings	*19*	**1,592,448**	832,612
Derivative financial instruments	*16*	**1,006**	1,236
Deferred revenue	*20*	**122**	122
		2,655,435	1,783,373
Total liabilities		**3,808,263**	3,483,766
Total equity and liabilities		**7,064,399**	6,627,015

The notes on pages 64 to 143 are an integral part of these consolidated financial statements.

The financial statements on pages 58 to 143 were approved by the Board of Directors on 18 March 2016 and were signed on its behalf.

Zhang Jun	**Wang Tao (汪濤)**
Director	*Director*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	5	**2,484,329**	2,575,986
Cost of sales	22	**(1,674,423)**	(1,555,407)
Gross profit		**809,906**	1,020,579
Selling and marketing expenses	22	**(109,181)**	(138,755)
Administrative expenses	22	**(372,813)**	(331,469)
Other income	25	**–**	5,909
Other gains/(losses) – net	26	**96,609**	(20,472)
Operating profit		**424,521**	535,792
Finance income	27	**9,169**	13,068
Finance costs	27	**(238,693)**	(90,098)
Finance costs – net		**(229,524)**	(77,030)
Share of profit of investments accounted for using equity method	9	**4,357**	2,947
Profit before income tax		**199,354**	461,709
Income tax expense	28	**(25,243)**	(46,535)
Profit for the year		**174,111**	415,174
Profit attributable to:			
Equity owners of the Company		**160,983**	397,692
Non-controlling interests		**13,128**	17,482
		174,111	415,174
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	29	**0.0949**	0.2345
Diluted earnings per share	29	**0.0949**	0.2329

The notes on pages 64 to 143 are an integral part of these consolidated financial statements.

	Note	2015 RMB'000	2014 RMB'000
Dividends	30	**28,426**	66,914

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit for the year	**174,111**	415,174
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**1,364**	(42,761)
Other comprehensive income/(loss) for the year, net of tax	**1,364**	(42,761)
Total comprehensive income for the year	**175,475**	372,413
Attributable to:		
Equity owners of the Company	**162,347**	354,931
Non-controlling interests	**13,128**	17,482
	175,475	372,413

The notes on pages 64 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

		Capital and reserves attributable to equity owners						
	Note	Ordinary shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2014		141,897	1,102,061	1,487,419	(76,048)	2,655,329	218,258	2,873,587
Comprehensive income								
Profit for the year		–	–	397,692	–	397,692	17,482	415,174
Other comprehensive income								
Currency translation differences		–	–	–	(42,761)	(42,761)	–	(42,761)
Total comprehensive income for the year		–	–	397,692	(42,761)	354,931	17,482	372,413
Appropriation to statutory reserve	*18(a)*	–	3,089	(3,089)	–	–	–	–
Transactions with owners								
Pre-IPO share option plan	*18(b)*	–	3,092	–	–	3,092	–	3,092
2013 Share Option Scheme	*18(b)*	–	11,594	–	–	11,594	–	11,594
Exercise of share options	*17(a), 18(b)*	75	1,868	–	–	1,943	–	1,943
Acquisition of additional interests in subsidiaries	*33*	–	(4,517)	–	–	(4,517)	(10,931)	(15,448)
Dividends in respect of 2013	*30*	–	–	(103,932)	–	(103,932)	–	(103,932)
As at 31 December 2014		141,972	1,117,187	1,778,090	(118,809)	2,918,440	224,809	3,143,249
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	*30*	**–**	**–**	**(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**

The notes on pages 64 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 RMB'000	 2014 RMB'000
Cash flow from operating activities			
Cash generated from operations	*31(a)*	**682,376**	442,173
Interest paid		**(116,329)**	(89,195)
Income tax paid		**(81,273)**	(92,244)
Net cash generated from operating activities		**484,774**	260,734
Cash flow used in investing activities			
Proceeds from disposal of property, plant and equipment	*31(b)*	**3,193**	1,583
Purchases of property, plant and equipment		**(238,929)**	(1,239,235)
Purchases of intangible assets	*8*	**(59)**	(4,884)
Acquisition of subsidiaries, net of cash acquired		**–**	(79,317)
Dividends received		**–**	1,875
Net cash used in investing activities		**(235,795)**	(1,319,978)
Cash flows from financing activities			
Proceeds from borrowings		**1,310,869**	2,038,498
Repayments of borrowings		**(1,227,402)**	(715,540)
Dividends paid to non-controlling interests of subsidiaries		**(3,850)**	(924)
Dividends paid to the equity owner of the subsidiary		**–**	(9,470)
Proceeds from share options exercised	*18(b)*	**99**	1,943
Acquisition of additional interests in subsidiaries	*33*	**–**	(3,922)
Dividends	*30*	**(66,925)**	(103,932)
Net cash inflow arising from security deposit for bank borrowings		**–**	6,601
Net cash generated from financing activities		**12,791**	1,213,254
Net increase in cash and cash equivalents		**261,770**	154,010
Exchange gains on cash and cash equivalents		**11,537**	3,158
Cash and cash equivalents at beginning of the year		**548,057**	390,889
Cash and cash equivalents at end of the year		**821,364**	548,057

The notes on pages 64 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 18 March 2016.

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 year ended 31 December 2015.

- Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans.
- Amendments from annual improvements to HKFRSs – 2010–2012 Cycle, on HKFRS 8, "Operating segments", HKAS 16, "Property, plant and equipment", HKAS 38, "Intangible assets" and HKAS 24, "Related party disclosures".
- Amendments from annual improvements to HKFRSs – 2011–2013 Cycle, on HKFRS 3, "Business combinations" and HKFRS 13, "Fair value measurement".

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New 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.

- HKFRS 14 "Regulatory Deferral Accounts", effective for the accounting period beginning on or after 1 January 2016.
- Amendment to HKFRS 11 "Accounting for acquisitions of interests in joint operation", effective for the accounting period beginning on or after 1 January 2016.
- Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortisation", effective for the accounting period beginning on or after 1 January 2016.
- Amendments to HKFRS 10 and HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture", effective for the accounting period beginning on or after 1 January 2016.
- Amendment to HKAS 27, "Equity method in separate financial statements", effective for the accounting period beginning on or after 1 January 2016.
- Annual improvements 2014, effective for the accounting period beginning on or after 1 January 2016.
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28, "Investment entities: applying the consolidation exception", effective for the accounting period beginning on or after 1 January 2016.
- Amendments to HKAS 1, "Disclosure initiative", effective for the accounting period beginning on or after 1 January 2016.
- 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.

Management is in the process of assessing the impact of the above standards and interpretations and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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 payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are 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 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 oilfield services is recognised under the percentage-of-completion method. Revenue from day-rate oilfield services contracts is generally recognised on the basis of labour hours delivered as a percentage of total hours to be delivered. Revenue from fixed-price oilfield services contracts is generally recognised based on the services performed to date as a percentage of the total service to be performed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

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

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

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

(c) Rendering of coating and engineering modelling assessment service

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

(d) Interest income

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

(e) Dividend income

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

2.25 Government grants

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

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

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

2.26 Operating leases (as a lessee)

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

2.27 Dividend distribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Research and development

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD") and Hong Kong dollar ("HKD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. In 2014, the Group entered into certain foreign exchange forward contracts (Note 27) to partially manage its exposure to USD from recognised assets, which were settled in the first half year of 2015. In 2014, the Group entered into a cross currency swap contract (Note 27) to partially manage its exposure to USD from recognised assets and liabilities, which was settled in the first half year of 2014.

As at 31 December 2015, 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 RMB60,436,000 higher/lower as a result of foreign exchange gains/losses (2014: RMB62,988,000 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 2015 and 2014, the Group managed certain of its cash flow interest-rate risk by entering into certain floating-to-fixed interest rate swaps (Note 16(a)). Such interest rate swaps had the economic effect of converting certain borrowings from floating rates to fixed rates.

As at 31 December 2015, 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 RMB764,000 (2014: RMB55,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The table below shows the bank deposit balances with the major counterparties as at 31 December 2015 and 2014:

		As at 31 December	
Counterparty	**Rating**	**2015 RMB'000**	2014 RMB'000
HSBC*	AA-	**297,192**	203,040
Citi Bank*	A	**182,059**	33,359
Bank of China*	A	**62,667**	26,445
China Construction Bank*	A	**51,419**	89,629
Agricultural Bank of China*	A	**44,129**	57,835
Zenith Bank*	B+	**36,311**	16,138
Emirates Islamic Bank**	BAA1	**27,877**	18,251
China Merchants Bank Co. Ltd*	BBB+	**27,660**	7,805
Faysal Bank	N/A	**26,360**	26,299
Promsvyazbank*	BB-	**23,589**	–
Industrial and Commercial Bank of China Ltd*	A	**19,944**	4,880
Far Eastern International Bank**	B1	**19,890**	25,603

* 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 make periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors. 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 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**
As at 31 December 2014					
Borrowings and interest payables	933,172	1,319,790	380,139	–	2,633,101
Trade and other payables (excluding advance from customers, interest payable, staff salaries and welfare payables and other tax liabilities)	836,554	–	–	–	836,554
Derivative financial instruments	4,802	1,972	–	–	6,774
	1,774,528	1,321,762	380,139	–	3,476,429

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 2015 and 2014 are as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Total borrowings *(Note 19)*	**2,676,912**	2,462,573
Less: Cash and cash equivalents *(Note 15)*	**(821,364)**	(548,057)
Net debt	**1,855,548**	1,914,516
Total equity	**3,256,136**	3,143,249
Total capital	**5,111,684**	5,057,765
Gearing ratio	**36.30%**	37.85%

The slight decrease in gearing ratio during the year ended 31 December 2015 was mainly due to the increase in cash and cash equivalents. 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 2015 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 presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015 and 2014.

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**

As at 31 December 2014	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Derivative financial instruments – non-current				
Interest rate swaps	–	2,406	–	2,406
Derivative financial instruments – current				
Foreign exchange forward contracts	–	1,162	–	1,162
Interest rate swaps	–	74	–	74
	–	1,236	–	1,236
	–	3,642	–	3,642

There were no transfers among levels during the years.

(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) 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.

(b) Useful lives of property, plant and equipment

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

(c) Impairment for receivables

The average credit period granted to customers is between 30 to 270 days. The trade and other receivables which are past due are analyzed in Note 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 60% of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and prevailing market conditions, the Group did not expect any significant losses from non-performance by these counterparties. At each balance sheet date, the Group also 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. Accordingly, the Group did not set aside further impairment provision for receivables.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Estimated write-downs of inventories

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

(e) Impairment assessment of goodwill

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

5 SEGMENT INFORMATION

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

Senior executive management considers the business from a business perspective, and assesses the performance of the business segment based on profit before income tax without allocation of finance 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 the business segment expenses in 2015 (corporate overheads expenses in 2014 were restated) as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

5 SEGMENT INFORMATION (continued)

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

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

- Oilfield equipment manufacturing and service provision, including the production of oilfield equipment and provision of OCTG coating services;
- Line pipe technology and service provision, including the provision of services related to oil and gas pipe line and production of coating materials for anticorrosive and anti-friction purpose;
- Oilfield services provision, including the provision of well drilling services, OCTG trading and related services to oil and gas producers; and
- Offshore engineering services provision, including the provision of offshore engineering services and offshore design services.

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2015 and 2014 are set out as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**676,462**	1,270,405
Line pipe technology and services	**295,038**	271,644
Oilfield services	**922,979**	1,032,239
Offshore engineering services	**589,850**	1,698
	2,484,329	2,575,986

5 SEGMENT INFORMATION (continued)

(b) Segment information

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

	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

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2014 is as follows:

	Year ended 31 December 2014				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,321,998	363,405	1,032,239	2,037	2,719,679
Inter-segment sales	(51,593)	(91,761)	–	(339)	(143,693)
Revenue from external customers	1,270,405	271,644	1,032,239	1,698	2,575,986
Results					
Segment gross profit	574,873	87,655	356,853	1,198	1,020,579
Segment profit/(loss)	318,279	52,884	238,865	(9,598)	600,430
Corporate overheads					(64,638)
Operating profit					535,792
Finance income					13,068
Finance costs					(90,098)
Share of profit of investments accounted for using equity method					2,947
Profit before income tax					461,709
Other information					
Depreciation of property, plant and equipment	58,252	11,093	92,170	140	161,655
Amortization of lease prepayments	1,231	904	–	–	2,135
Amortization of intangible assets	359	208	–	134	701
Capital expenditure	117,871	57,756	139,756	980,975	1,296,358

	As at 31 December 2014				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	3,252,946	490,962	1,744,336	1,082,111	6,570,355
Investments accounted for using equity method					56,660
Total assets					6,627,015
Total liabilities	2,960,102	195,564	227,639	100,461	3,483,766

5 SEGMENT INFORMATION (continued)

(c) Geographical segments

Although the Group's four segments are managed on a worldwide basis, they operate in six principal geographical areas of the world. In the PRC, the Group produces and sells a broad range of drill pipes and related products, provides coating materials and services, 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 and South America, 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	
	2015 RMB'000	2014 RMB'000
The PRC	**1,253,316**	896,953
North and South America	**595,220**	903,701
Africa	**260,487**	220,091
Russia, Central Asia and East Europe	**173,518**	285,460
South Asia	**133,357**	114,000
Middle East	**68,317**	152,194
Others	**114**	3,587
	2,484,329	2,575,986

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

	Carrying amount of segment assets As at 31 December	
	2015 RMB'000	2014 RMB'000
The PRC	**2,100,118**	2,055,470
North and South America	**492,723**	479,842
Africa	**318,813**	217,704
South Asia	**174,119**	123,552
Middle East	**129,774**	127,106
Russia, Central Asia and East Europe	**69,291**	104,903
	3,284,838	3,108,577

The following table shows 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	
	2015 RMB'000	2014 RMB'000
The PRC	**163,475**	1,193,609
Africa	**105,261**	4,408
North and South America	**33,275**	172,366
Russia, Central Asia and East Europe	**2,391**	87,516
Middle East	**1,919**	1,224
South Asia	**170**	685
	306,491	1,459,808

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 2014							
Cost	346,828	1,303,316	33,969	25,035	17,061	336,187	2,062,396
Accumulated depreciation	(63,661)	(345,270)	(18,184)	(17,274)	(3,771)	–	(448,160)
Net book amount	283,167	958,046	15,785	7,761	13,290	336,187	1,614,236
Year ended 31 December 2014							
Opening net book amount	283,167	958,046	15,785	7,761	13,290	336,187	1,614,236
Transferred from construction in progress	57,687	146,173	1,310	–	599	(205,769)	–
Additions	74,012	1,183	4,698	1,964	241	1,270,345	1,352,443
Acquisition of Texas Internal Pipe Coating, LLC and the related property, plant and equipment ("US Coating Business") *(Note 34(a))*	18,428	15,302	–	–	–	–	33,730
Acquisition of Hilong Temerso LLC and Technomash LLC ("Russia Coating Business") *(Note 34(b))*	20,569	20,700	438	52	–	79	41,838
Disposals	–	(1,973)	(186)	(20)	–	–	(2,179)
Depreciation *(Note 22)*	(16,555)	(136,242)	(4,982)	(2,571)	(1,305)	–	(161,655)
Currency translation differences	(1,208)	(19,659)	(1,079)	(163)	(638)	713	(22,034)
Closing net book amount	436,100	983,530	15,984	7,023	12,187	1,401,555	2,856,379
At 31 December 2014							
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	**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**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2014, the additions of construction in progress primarily included capital expenditure of RMB1,036,690,000 on a pipe-lay barge. As at 31 December 2014, the pipe-lay barge was under construction and was completed and ready for its intended use in March 2015.

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

	Year ended 31 December	
	2015 **RMB'000**	2014 RMB'000
Cost of sales	**198,668**	151,708
Administrative expenses	**14,793**	9,481
Selling and marketing expenses	**826**	466
	214,287	161,655

As at 31 December 2015, interest capitalized in assets under construction amounted to RMB12,971,000 (31 December 2014: RMB24,339,000) (Note 27). The capitalised rate of borrowings was 4.71% (2014: 4.89%).

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	
	2015 **RMB'000**	2014 RMB'000
Outside of Hong Kong:		
– Lease of between 10 to 50 years	**90,694**	92,821

	Year ended 31 December	
	2015 **RMB'000**	2014 RMB'000
Opening net book value	**92,821**	94,956
Amortization charges *(Note 22)*	**(2,127)**	(2,135)
Closing net book value	**90,694**	92,821

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 2014				
Cost	69,108	4,861	4,166	78,135
Accumulated amortization	–	(1,254)	(1,921)	(3,175)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	69,108	1,510	2,245	72,863
Year ended 31 December 2014				
Opening net book amount	69,108	1,510	2,245	72,863
Additions	–	–	4,884	4,884
Acquisition of US Coating Business *(Note 34(a))*	43,405	–	–	43,405
Acquisition of Russia Coating Business *(Note 34(b))*	44,477	–	–	44,477
Amortization charge *(Note 22)*	–	(185)	(516)	(701)
Currency translation differences	(5,556)	–	5	(5,551)
Closing net book amount	151,434	1,325	6,618	159,377
At 31 December 2014				
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**

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	
	2015	2014
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**149,242**	151,434

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 zero 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	
	2015	2014
	RMB'000	RMB'000
Gross margin	**40%**	45%
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 2015(2014: nil).

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Cost of sales	**393**	2
Administrative expenses	**609**	699
	1,002	701

9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Associates	**34,681**	32,094
Joint ventures	**24,540**	24,566
	59,221	56,660

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

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Associates	**4,383**	5,733
Joint ventures	**(26)**	(2,786)
	4,357	2,947

(a) Investments in associates

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Beginning of year	**32,094**	29,138
Share of results of associates	**4,383**	5,733
Dividends declared	**(1,796)**	(2,777)
End of year	**34,681**	32,094

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		Principal activities
			2015	2014	
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	12 February 2007, Shandong, the PRC	RMB20,000,000	**30%**	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	22 November 2010, Liaoning, the PRC	RMB15,000,000	**30%**	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	20 November 2004, Shanxi, the PRC	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	Revenues RMB'000	Profit RMB'000
As at and year ended 31 December 2015	**102,799**	**68,118**	**34,681**	**48,918**	**4,383**
As at and year ended 31 December 2014	106,774	74,680	32,094	99,408	5,733

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

(b) Investments in joint ventures

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Beginning of year	**24,566**	42,038
Share of results of the joint ventures	**(26)**	(2,786)
Currency translation differences	**–**	(5,439)
Realization of unrealized profit	**–**	1,240
Transfer from investment in a joint venture to investment in a subsidiary upon acquisition of additional equity interest in Hilong Temerso *(Note 34(b))*	**–**	(10,487)
End of year	**24,540**	24,566

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(b) Investments in joint ventures (continued)

The Group's interests in joint ventures and certain of their financial information attributable to the Group are as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December 2015	2014	Principal activities
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	24 July 2013, the PRC	RMB50,000,000	**49%**	49%	Coating service provision

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenues RMB'000	Losses RMB'000
As at and year ended 31 December 2015	**35,928**	**11,388**	**24,540**	**27,788**	**26**
As at and year ended 31 December 2014	39,060	14,494	24,566	8,344	2,786

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

10 OTHER LONG-TERM ASSETS

	As at 31 December 2015 RMB'000	2014 RMB'000
Long-term prepaid expenses	**1,563**	799

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	
	2015	2014
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**55,316**	48,518
– to be recovered after more than 12 months	**75,828**	60,837
	131,144	109,355
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(45,193)**	(44,448)

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	Impairment provision on assets	Accruals	Unrealized profit (a)	Allowance related to capitalized expenditure	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	19,379	5,805	2,753	66,159	5,319	4,212	103,627
Acquisition of Russia Coating Business *(Note 34(b))*	4,755	–	–	–	–	–	4,755
Credit/(charged) to the consolidated income statement *(Note 28)*	(1,723)	843	(69)	9,732	76	(1,629)	7,230
At 31 December 2014	22,411	6,648	2,684	75,891	5,395	2,583	115,612
Credit/(charged) to the consolidated income statement *(Note 28)*	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**

(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. The Group did not recognise cumulative deferred income tax assets of RMB40,824,000 as at 31 December 2015 (31 December 2014: RMB33,969,000) in respect of the accumulated tax losses of certain subsidiaries. Part of the accumulated tax losses amounted to RMB14,650,000, RMB11,366,000, RMB16,820,000, RMB15,513,000, RMB31,908,000, RMB22,417,000 and RMB23,641,000 will expire in years ending 31 December of 2016, 2017, 2018, 2019, 2020, 2024 and 2025 respectively. The remaining portion of the accumulated tax losses amounting to RMB55,281,000 can be carried forward indefinitely.

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries (Note 28) RMB'000	Gain on remeasuring existing equity interest 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 2014	(76,872)	(3,381)	(1,110)	–	(81,363)
Acquisition of US Coating Business *(Note 34(a))*	–	–	–	(2,755)	(2,755)
Acquisition of Russia Coating Business *(Note 34(b))*	–	–	(4,032)	–	(4,032)
Credit/(charged) to the consolidated income statement *(Note 28)*	38,436	–	58	(1,049)	37,445
At 31 December 2014	(38,436)	(3,381)	(5,084)	(3,804)	(50,705)
Credit/(charged) to the consolidated income statement *(Note 28)*	–	–	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)**

12 SUBSIDIARIES

Detail of the subsidiaries of the Group as at 31 December 2015 and 2014 are set out in Note 36.

13 INVENTORIES

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
Raw materials	**319,151**	254,335
Work in progress	**51,516**	62,740
Finished goods	**416,608**	494,844
Packing materials	**424**	1,332
Low value consumables	**16,495**	27,289
	804,194	840,540

The cost of inventories recognised as cost of sales amounted to approximately RMB663,061,000 for the year ended 31 December 2015 (2014: RMB864,205,000).

During the year ended 31 December 2015, the Group reversed inventory provision write-down brought forward from prior years of RMB352,000 (2014: RMB236,000) because certain aged raw materials were subsequently used in production. The amount reversed has been included in "cost of sales" in the consolidated income statement (Note 22). The Group also disposed of certain raw materials and finished goods amounted to RMB6,837,000 which were fully provided for (2014: Nil). As at 31 December 2015, inventory provision relating to raw materials and finished goods amounted to RMB4,794,000 (31 December 2014: RMB11,983,000).

14 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
Bills receivable *(a)*	**34,615**	70,397
Trade receivables *(b)*		
– Due from related parties *(Note 35(c))*	**38,316**	68,052
– Due from third parties	**1,510,650**	1,492,739
Less: provision for impairment of receivables *(d)*	**(27,237)**	(25,793)
Trade receivables – net	**1,521,729**	1,534,998
Other receivables *(c)*	**164,092**	166,632
Prepayments	**133,837**	105,589
Dividend receivables *(Note 35(c))*	**3,346**	1,550
Trade and other receivables – net	**1,857,619**	1,879,166

As at 31 December 2015 and 2014, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

14 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2015 and 2014, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
– RMB	**898,806**	1,118,743
– USD	**807,771**	502,321
– NGN	**41,702**	38,269
– RUB	**41,273**	26,682
– AED	**29,164**	77,753
– CAD	**20,970**	57,016
– COP	**8,951**	22,755
– PKR	**4,182**	–
– KZT	**2,478**	35,310
– ETB	**1,583**	–
– ALL	**181**	–
– EUR	**148**	–
– HKD	**410**	317
	1,857,619	1,879,166

(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 2015 and 2014 was as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**725,537**	1,012,791
– Over 90 days and within 180 days	**264,531**	187,679
– Over 180 days and within 360 days	**236,135**	129,314
– Over 360 days and within 720 days	**231,735**	168,441
– Over 720 days	**91,028**	62,566
	1,548,966	1,560,791

14 TRADE AND OTHER RECEIVABLES (continued)

(b) The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2015 and 2014 was as follows: (continued)

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

As at 31 December 2015, trade receivables of RMB27,237,000 (31 December 2014: RMB25,793,000) 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 2015, trade receivables of RMB796,192,000 (31 December 2014: RMB522,207,000) 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	
	2015	2014
	RMB'000	RMB'000
– Over 90 days and within 180 days	**264,531**	187,679
– Over 180 days and within 360 days	**236,135**	129,314
– Over 360 days and within 720 days	**231,735**	168,441
– Over 720 days	**63,791**	36,773
	796,192	522,207

(c) Details of other receivables are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Due from related parties *(Note 35(c))*	**76,348**	88,363
Staff advances	**22,948**	11,847
Deposits	**25,698**	31,631
Value added tax refund	**11,466**	10,044
Others	**27,632**	24,747
	164,092	166,632

14 TRADE AND OTHER RECEIVABLES (continued)

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
At beginning of the year	**(25,793)**	(20,000)
Additional provision *(Note 22)*	**(10,483)**	(5,793)
Write off of impairment	**9,039**	–
At the end of the year	**(27,237)**	(25,793)

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Cash at bank and in hand *(a)*	**893,232**	631,918
Less: Restricted cash *(b)*	**(71,868)**	(83,861)
Cash and cash equivalents	**821,364**	548,057

(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	
	2015	2014
	RMB'000	RMB'000
Cash at bank and in hand are denominated in:		
– USD	**434,897**	195,235
– RMB	**355,153**	328,339
– HKD	**38,526**	19,923
– NGN	**21,696**	6,564
– RUB	**13,439**	15,801
– PKR	**11,626**	4,812
– AED	**7,808**	4,454
– CAD	**7,335**	52,706
– KZT	**1,378**	3,433
– COP	**1,009**	608
– ETB	**321**	–
– EURO	**44**	43
	893,232	631,918
Restricted cash is denominated in:		
– RMB	**57,006**	76,127
– USD	**14,862**	7,590
– KZT	**–**	144
	71,868	83,861

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		As at 31 December	
	2015 Assets RMB'000	**2015 Liability RMB'000**	2014 Assets RMB'000	2014 Liability RMB'000
Interest rate swaps *(a)*	**–**	**1,006**	–	2,480
Foreign exchange forward contracts *(b)*	**–**	**–**	–	1,162
	–	**1,006**	–	3,642
Less non-current portion:				
Interest rate swaps *(a)*	**–**	**–**	–	2,406
Current portion	**–**	**1,006**	–	1,236

(a) Interest rate swaps

As at 31 December 2015 and 2014, the Group had outstanding interest rate swaps 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 contracts were USD51,000,000 and HKD141,592,105 (31 December 2014: USD63,000,000 and HKD166,578,947) and the fixed interest rates varied from 4% to 4.458% per annum (31 December 2014: 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".

(b) Foreign exchange forward contracts

As at 31 December 2014, the Group had foreign exchange forward contracts entered into with a commercial bank. The notional principal amounts of the outstanding forward exchange contracts as at 31 December 2014 were USD 11,000,000. These contracts were all settled in the first half year of 2015. 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 ".

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 2014		1,695,441,800	169,544,180	141,896,644
Issue of shares upon exercise of options	*(a)*	948,800	94,880	74,860
As at 31 December 2014		1,696,390,600	169,639,060	141,971,504
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**

(a) During the year ended 31 December 2015, a total of 48,000 ordinary shares (2014: 948,800 ordinary shares) were issued for cash at an 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 2014	93,601	(141,929)	19,136	1,169,587	702	(39,036)	1,102,061
Appropriation to statutory reserve *(a)*	3,089	–	–	–	–	–	3,089
Pre-IPO share option plan *(b)*	–	–	3,092	–	–	–	3,092
2013 Share Option Scheme *(b)*	–	–	11,594	–	–	–	11,594
Exercise of share options *(b)*	–	–	(663)	2,531	–	–	1,868
Acquisition of additional interests in a subsidiary *(Note 33(c))*	–	–	–	–	–	(4,517)	(4,517)
As at 31 December 2014	96,690	(141,929)	33,159	1,172,118	702	(43,553)	1,117,187
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**

18 OTHER RESERVES (continued)

(a) Statutory reserve

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

For the year ended 31 December 2015, RMB2,158,000 (2014: RMB3,089,000) 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 2013 Share Option Scheme were granted to certain employees of the Group.

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

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(i) Pre-IPO Share Option Plan

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

	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December 2015	2014
At 1 January	2.60	**31,594,300**	33,430,700
Exercised	2.60	**(48,000)**	(948,800)
Forfeited	2.60	**(802,400)**	(887,600)
At 31 December	2.60	**30,743,900**	31,594,300

The share options outstanding (expiry date: 21 April 2021) as at 31 December 2015 and 2014 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December 2015	2014
21 April 2012	2.60	**2,224,500**	2,224,500
21 April 2013	2.60	**6,709,800**	6,898,600
21 April 2014	2.60	**7,256,000**	7,460,800
21 April 2015	2.60	**7,268,800**	7,505,200
21 April 2016	2.60	**7,284,800**	7,505,200
		30,743,900	31,594,300

Out of the 30,743,900 outstanding options (2014: 31,594,300 outstanding options), 23,459,100 options (2014: 16,583,900 options) were exercisable. Options exercised in 2015 resulted in 48,000 ordinary shares (2014: 948,800 ordinary shares) being issued at the exercise price of HKD2.6 per share. The related weighted average share price at the time of exercise was HKD2.9 per share (2014: HKD5.4).

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

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

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

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

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	
	2015 RMB'000	2014 RMB'000
Cost of sales	**18**	36
Administrative expenses	**1,135**	4,427
Selling and marketing expenses	**101**	(1,371)
	1,254	3,092

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 shares Year ended 31 December	
		2015	2014
Beginning of the period	5.93	**19,563,400**	–
Granted	5.93	**–**	19,980,000
Forfeited	5.93	**(1,503,100)**	(416,600)
End of the period	5.93	**18,060,300**	19,563,400

The share options outstanding (expiry date: 4 February 2024) as at 31 December 2015 and 2014 have the following vesting dates and exercise prices:

	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December	
Vesting date		**2015**	2014
5 February 2015	5.93	**3,612,060**	3,912,680
5 February 2016	5.93	**3,612,060**	3,912,680
5 February 2017	5.93	**3,612,060**	3,912,680
5 February 2018	5.93	**3,612,060**	3,912,680
5 February 2019	5.93	**3,612,060**	3,912,680
		18,060,300	19,563,400

Out of the 18,060,300 outstanding options (2014: 19,563,400 outstanding options), 3,612,060 options (2014: nil) were exercisable.

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

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

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

The significant inputs into the model were as follows,

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

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

	Year ended 31 December 2015 RMB'000	 2014 RMB'000
Cost of sales	**61**	189
Administrative expenses	**1,281**	2,079
Selling and marketing expenses	**5,492**	9,326
	6,834	11,594

19 BORROWINGS

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Non-current		
Bank borrowing – unsecured *(b)*	**2,156,532**	1,891,464
Less: Current portion of non-current borrowings *(b)*	**(1,072,068)**	(261,503)
	1,084,464	1,629,961
Current		
Bank borrowings – secured *(a)*	**50,377**	22,028
Bank borrowings – unsecured	**470,003**	549,081
Current portion of non-current borrowings *(b)*	**1,072,068**	261,503
	1,592,448	832,612
	2,676,912	2,462,573

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Bank borrowings:		
– USD	**1,649,542**	1,510,122
– HKD	**613,485**	472,301
– RMB	**413,885**	480,150
	2,676,912	2,462,573

19 BORROWINGS (continued)

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

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
As at 31 December 2015	**2,507,842**	**169,070**	**–**	**2,676,912**
As at 31 December 2014	2,242,573	220,000	–	2,462,573

The maturity of borrowings is as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
On demand or within 1 year	**1,592,448**	832,612
Between 1 and 2 years	**292,203**	1,267,547
Between 2 and 5 years	**792,098**	362,414
Over 5 years	**163**	–
	2,676,912	2,462,573

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Borrowings – current		
– RMB	**5.45%**	5.95%
– HKD	**4.63%**	4.90%
– USD	**4.76%**	4.71%
Borrowings – non-current		
– HKD	**4.63%**	4.90%
– USD	**4.76%**	4.71%

The fair value of current borrowings equals 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.

19 BORROWINGS (continued)

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
RMB facilities	**288,431**	403,280
USD facilities	**578,433**	139,560
HKD facilities	**135,456**	–
	1,002,320	542,840

(a) Bank borrowings – secured

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
Secured by bank deposits *(i)*	**50,377**	22,028

i. The bank borrowings of RMB50,377,000 (31 December 2014: RMB22,028,000) were secured by bank deposits of RMB32,544,000 (Note 15(b)) of the Group as at 31 December 2015 (31 December 2014: RMB32,544,000).

(b) Non-current unsecured bank borrowings

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 2015, the Group has drawn down the aforementioned facility with amount of USD80,401,000 and HKD218,931,000. These loan principals are fully repayable in 2017 and 2018 respectively.

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 2015, the Group has fully drawn down the aforementioned facility, out of which USD7,400,000 and HKD20,150,000 have been repaid in 2015. The remaining principals are fully repayable in 2016, 2017 and 2018 respectively.

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 2015, the Group has fully drawn down the aforementioned facility, out of which USD51,538,000 and HKD143,084,000 have been repaid in 2015. The remaining principals are fully repayable in 2016.

In March 2014, the Company entered into a USD loan facility agreement with Far Eastern International Bank amounted to USD 15,000,000. As at 31 December 2015, all facilities were fully drawn down, out of which USD6,000,000 has been repaid in 2015 and the remaining portion will be fully repayable in 2016.

20 DEFERRED REVENUE

Deferred revenue represents government grants relating to certain research projects and production lines. Government grants relating to research projects are recognised in the consolidated income statements 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 statements on a straight-line basis over the expected useful lives of the related production lines.

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Current – relating to certain research projects	**122**	122
Non-current – relating to certain production lines	**23,171**	23,578
	23,293	23,700

21 TRADE AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Bills payable	**75,393**	128,776
Trade payables:		
– Due to third parties	**702,395**	560,352
Other payables:		
– Due to related parties *(Note 35(c))*	**31,483**	48,624
– Due to third parties	**48,853**	86,494
Staff salaries and welfare payables	**43,022**	37,122
Advances from customers	**70,913**	25,533
Interest payables	**15,286**	1,096
Accrued taxes other than income tax	**53,374**	42,145
Dividends payable	**1,463**	1,463
Other liabilities	**16,052**	10,845
	1,058,234	942,450

As at 31 December 2015 and 2014, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

21 TRADE AND OTHER PAYABLES (continued)

As at 31 December 2015 and 2014, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
– RMB	**706,646**	736,178
– USD	**291,113**	151,509
– RUB	**21,613**	3,166
– AED	**11,947**	9,449
– NGN	**10,736**	18,497
– PKR	**6,496**	4,868
– ETB	**6,557**	–
– KZT	**1,542**	14,019
– CAD	**1,485**	4,764
– ALL	**86**	–
– HKD	**13**	–
	1,058,234	942,450

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	
	2015 **RMB'000**	2014 RMB'000
Trade payables, gross		
– Within 90 days	**537,038**	485,303
– Over 90 days and within 180 days	**101,272**	52,707
– Over 180 days and within 360 days	**62,662**	20,440
– Over 360 days and within 720 days	**1,275**	463
– Over 720 days	**148**	1,439
	702,395	560,352

22 EXPENSES BY NATURE

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress *(Note 13)*	**89,460**	(58,762)
Raw materials and consumable used *(Note 13)*	**573,601**	922,967
Employee benefit expenses *(Note 23)*	**493,999**	473,473
Subcontract cost	**290,952**	–
Depreciation *(Note 6)*	**214,287**	161,655
Transportation expenses	**100,861**	128,153
Utilities and electricity	**83,254**	95,125
Research and development expenses	**50,456**	42,163
Entertainment expenses	**51,991**	54,673
Travelling and communication expenses	**45,850**	41,882
Consulting expenses	**39,016**	33,260
Operating lease payments	**32,083**	33,264
Taxes and levies	**27,109**	24,305
Marketing and promotion expenses	**24,429**	20,520
Provision for impairment of receivables *(Note 14(d))*	**10,483**	5,793
Sales commission	**11,734**	32,097
Auditor's remuneration		
– Audit services	**3,250**	3,250
– Non-audit services	**430**	1,786
Amortization of lease prepayments *(Note 7)*	**2,127**	2,135
Amortization of intangible assets *(Note 8)*	**1,002**	701
Reversal of provision for inventory write-down *(Note 13)*	**(352)**	(236)
Miscellaneous	**10,395**	7,427
Total cost of sales, selling and marketing expenses and administrative expenses	**2,156,417**	2,025,631

23 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Wages and salaries	**415,830**	397,893
Social security costs	**70,081**	60,894
Share options granted to directors and employees *(Note 18(b)(i), (ii))*	**8,088**	14,686
	493,999	473,473

(a) Five highest paid individual

The five individual whose emoluments were the highest in the Group for the year ended 31 December 2015 include three (2014: two) directors whose emoluments are reflected in the analysis presented in Note 24. The emoluments payable to the remaining two (2014: three) individuals during the year are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Salaries	**1,257**	2,093
Discretionary bonus and allowances	**1,298**	1,758
Social security costs	**141**	225
Share options *(Note 18(b))*	**160**	680
	2,856	4,756

The emoluments fell within the following bands:

	Year ended 31 December	
	2015	2014
Emolument bands:		
Nil to HKD1,500,000	**–**	–
HKD1,500,001 to HKD2,000,000	**2**	1
HKD2,000,001 to HKD2,500,000	**–**	2
HKD2,500,001 to HKD3,000,000	**–**	–
	2	3

No director 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 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 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 2015									
Zhang Jun (張軍)	–	731	751	60	22	–	–	–	1,564
Wang Tao (汪濤)	–	726	548	64	80	–	–	–	1,418
Zhang Shuman (張姝熳)	–	1,380	–	52	22	–	–	–	1,454
Yuan Peng Bin (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.

24 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

For the year ended 31 December 2014:

Comparative information of director's emoluments for the year ended 31 December 2014 has been disclosed in accordance with the new scope and requirements by the Hong Kong Companies Ordinance.

	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 2014									
Zhang Jun (張軍)	–	731	751	76	45	–	–	–	1,603
Wang Tao (汪濤)	–	750	548	81	162	–	–	–	1,541
Zhang Shuman (張姝嫚)	–	1,361	–	51	45	–	–	–	1,457
Ji Min (紀敏)	–	723	408	75	60	–	–	–	1,266
Yuan Peng Bin (袁鵬斌)	–	718	460	68	162	–	–	–	1,408
Li Huaiqi (李懷奇)	–	290	–	–	–	–	–	–	290
Wang Tao (王濤)	118	–	–	–	–	–	–	–	118
Lee Siang Chin	118	–	–	–	–	–	–	–	118
Liu Haisheng (劉海勝)	118	–	–	–	–	–	–	–	118
	354	4,573	2,167	351	474	–	–	–	7,919

(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 INCOME

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Gain on remeasuring existing interest in Hilong Temerso *(Note 34(b))*	**–**	5,909

26 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Government grants	**16,317**	16,735
Gains on disposal of property, plant and equipment – net	**2,909**	2,250
Exchange gains/(losses)	**78,324**	(41,822)
Others	**(941)**	2,365
	96,609	(20,472)

27 FINANCE COSTS – NET

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Finance income:		
– Fair value gains on interest rate swaps and cross currency swaps	**1,474**	1,511
– Fair value gains on foreign exchange forward contracts	**1,162**	–
– Exchange gains	**–**	4,861
– Interest income derived from bank deposits	**6,533**	6,696
	9,169	13,068
Finance cost:		
– Interest expense on bank borrowings	**(136,017)**	(112,268)
Less: interest capitalised *(Note 6)*	**12,971**	24,339
– Exchange losses	**(115,647)**	–
– Fair value losses on foreign exchange forward contracts	**–**	(1,162)
– Fair value losses on interest rate swaps and cross currency swaps	**–**	(1,007)
	(238,693)	(90,098)
Finance costs – net	**(229,524)**	(77,030)

28 INCOME TAX EXPENSE

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Current income tax	**45,357**	91,210
Deferred income tax *(Note 11)*	**(20,114)**	(44,675)
Income tax expense	**25,243**	46,535

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	
	2015	2014
	RMB'000	RMB'000
Profit before tax	**199,354**	461,709
Tax calculated at statutory tax rates applicable to each group entity	**14,784**	66,594
Tax effect of:		
Expenses not deductible for tax purpose	**5,138**	6,688
Reversal of deferred tax liability related to withholding tax on dividends	**–**	(38,436)
Additional deduction for research and development expense *(b)*	**(4,447)**	(4,374)
Utilisation of previously unrecognised tax losses	**(8,597)**	–
Tax losses of subsidiaries not recognised	**18,365**	16,063
Tax charge	**25,243**	46,535

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 2015 and 2014.

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 20% to 34% prevailing in the places in which the Group operated for the year ended 31 December 2015 (31 December 2014: 20% to 34%).

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

28 INCOME TAX EXPENSE (continued)

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

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

Pursuant to Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("Hilong Energy") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries. The management continuously assessed whether Hilong Energy qualified as a "beneficial owner". Based on the additional information obtained, the management concluded that Hilong Energy qualified as a "beneficial owner" for the year ended 31 December 2014. Such information included the fact that the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits of RMB10,000,000 out of its 2012 earnings to Hilong Energy. Given the above, for the year ended 31 December 2015, the Group applied a 5% dividend withholding tax rate when estimating its deferred income tax liability related to all prior years' earnings generated from those subsidiaries that are to be distributed to Hilong Energy. Accordingly, the related deferred income tax liability of RMB38,436,000 was reversed during the year ended 31 December 2014 with a corresponding credit to the deferred income tax expenses in the consolidated income statement.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 29 December 2015 and 28 December 2014, all the earnings generated by the Company's PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB2,776,000 (2014: RMB10,521,000) 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 2015 and 2014. As at 31 December 2015, deferred income tax liabilities of RMB51,464,000 (31 December 2014: RMB48,688,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,029,280,000 (31 December 2014: RMB973,760,000).

(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	
	2015	2014
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%**	25%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	25%

28 INCOME TAX EXPENSE (continued)

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

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

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

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

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2015 and 2014.

(b) Additional deduction for research and development expense

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

29 EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2015	2014
Profit attributable to equity owners of the Company (RMB'000)	**160,983**	397,692
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,423**	1,696,203
Basic earnings per share (RMB per share)	**0.0949**	0.2345

29 EARNINGS PER SHARE (continued)

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 2015, there were 30,743,900 share options outstanding related to Pre-IPO share option plan. For the year ended 31 December 2015, 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 2015, there were 18,060,300 (31 December 2014: 19,563,400) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2015 and 31 December 2014, 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.

The calculation of the diluted earnings per share for the year ended 31 December 2014 was shown as:

	Year ended 31 December 2014
Profit attributable to equity owners of the Company (RMB'000)	397,692
Weighted average number of ordinary shares in issue (thousands of shares)	1,696,203
Adjustments for share options granted under the pre-IPO share option plan (thousands of shares)	11,411
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	1,707,614
Diluted earnings per share (RMB per share)	0.2329

30 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 18 March 2016, a final dividend of HKD0.0200 (equivalent to approximately RMB0.0168) per share for the year ended 31 December 2015 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 12 July 2016 to the shareholders of the Company whose names appear on the register of members of the Company as at 5 July 2016. The total amount is estimated to be HKD33,929,000 (equivalent to approximately RMB28,426,000). These financial statements do not reflect this dividend payable.

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.

30 DIVIDENDS (continued)

The dividend in respect of 2013 of HKD0.0770 (equivalent to RMB0.0613) per share, amounted to a total dividend of HKD130,601,000 (equivalent to RMB103,932,000), was approved at the Company's annual general meeting on 16 May 2014. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2014 and paid out.

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

31 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Profit for the year before income tax	**199,354**	461,709
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**214,287**	161,655
– Amortization of lease prepayments *(Note 7)*	**2,127**	2,135
– Amortization of intangible assets *(Note 8)*	**1,002**	701
– Reversal of provision for inventory write-down *(Note 13)*	**(352)**	(236)
– Provision for impairment of receivables *(Note 14)*	**10,483**	5,793
– Share of profit of investments accounted for using equity method *(Note 9)*	**(4,357)**	(2,947)
– Finance costs *(Note 27)*	**247,594**	83,726
– Other income *(Note 25)*	**–**	(5,909)
– Net gains on disposal of property, plant and equipment *(Note 26)*	**(2,909)**	(2,250)
– Share option expenses *(Note 18(b))*	**8,088**	14,686
	675,317	719,063
Changes in working capital:		
– Decrease/(increase) in trade and other receivables	**26,794**	(394,787)
– Decrease/(increase) in inventories	**36,698**	(96,361)
– Decrease in restricted cash	**11,993**	39,385
– (Decrease)/increase in deferred revenue	**(407)**	800
– (Decrease)/increase in trade and other payables	**(68,019)**	174,073
– Cash generated from operations	**682,376**	442,173

31 CASH GENERATED FROM OPERATIONS (continued)

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

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Net book amount *(Note 6)*	**3,057**	2,179
Net gains on disposal of property, plant and equipment *(Note 26)*	**2,909**	2,250
Proceeds from disposal of property, plant and equipment	**5,966**	4,429
Collected	**3,193**	1,583
Not yet collected	**2,773**	2,846
	5,966	4,429

(c) Non-cash transactions

The principal non-cash transaction in 2014 is the waiver of receivables of RMB10,588,000 and RMB21,540,000 as consideration for the acquisition of additional interests in Nantong Hilong Steal Pipe Co., Ltd. ("Nantong Hilong") and Russia Coating Business respectively. Details see Note 33(a) and Note 34 (b).

32 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Property, plant and equipment	**577**	15,557

32 COMMITMENTS (continued)

(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	
	2015 RMB'000	2014 RMB'000
No later than 1 year	**8,320**	7,371
Later than 1 year and no later than 3 year	**2,127**	7,781
Later than 3 years	**9,155**	9,850
	19,602	25,002

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of additional interest in Nantong Hilong

On 12 March 2014, Hilong Group of Companies Ltd., a wholly owned subsidiary of the Group, acquired an additional 10% equity interest in Nantong Hilong. The Group waived receivables of RMB10,588,000 due from the non-controlling interests as the consideration. The carrying amount of the non-controlling interests in Nantong Hilong on the date of acquisition was RMB6,960,000. The Group recognised a decrease in non-controlling interests of RMB6,960,000 and a decrease in equity attributable to owners of the Company of RMB3,628,000. The effect of changes in the ownership interest of Nantong Hilong on the equity attributable to owners of the Company in 2014 is summarised as follows:

	RMB'000
Carrying amount of non-controlling interests acquired	6,960
Consideration	(10,588)
Excess of consideration recognised within equity	(3,628)

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

(b) 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. The effect of changes in the ownership interest of Hilong Oil Service and Engineering Co., Ltd. on the equity attributable to owners of the Company in 2014 is summarised as follows:

	RMB'000
Carrying amount of non-controlling interests acquired	3,971
Consideration paid to non-controlling interests	(4,860)
Excess of consideration paid recognised within equity	(889)

As at 31 December 2015, the unpaid cash consideration amounted to RMB938,000 (As at 31 December 2014: RMB938,000) (Note 35(c)).

(c) Effects of transactions with non-controlling interests on the equity attributable to equity owners of the Company for the year ended 31 December 2014

	RMB'000
Changes in equity attributable to the equity owners of the Company arising from:	
– Acquisition of additional interest in Nantong Hilong	(3,628)
– Acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd.	(889)
Net effect for transactions with non-controlling interests on the equity attributable to equity owners of the Company	(4,517)

34 BUSINESS COMBINATION

(a) Acquisition of US coating business

The Group acquired a business relating to coating of the interior of pipes located in Texas, the United States of America on 26 March 2014. As part of the business acquisition, the Company, through its wholly owned subsidiary in the U.S., Hilong USA Holding Corp., acquired a 100% equity interest in Texas Internal Pipe Coating, LLC ("TIPC"). In addition, the Group also acquired the property, plant and equipment related to the US Coating Business from a company under the common control of the then selling shareholders of TIPC.

As a result of the acquisition, the Group is expected to increase its presence in the US market. It also expects to reduce costs through economies of scale. The goodwill of RMB43,405,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the US Coating Business. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for the US Coating Business, the fair value of assets acquired and liabilities assumed at the acquisition date:

	RMB'000
Consideration:	
Total cash consideration	57,329
Total consideration	**57,329**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 6)*	33,730
Inventories	867
Deferred income tax liabilities *(Note 11)*	(2,755)
Trade and other payables	(17,918)
Total identifiable net assets	**13,924**
Goodwill *(Note 8)*	43,405
	57,329

(a) In 2014, the revenue included in the consolidated income statement since the acquisition contributed by the US Coating Business was RMB63,116,000. US Coating Business also contributed profit of RMB13,123,000 over the same period.

(b) Had the US Coating Business been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 would have showed a pro-forma revenue of RMB2,587,220,000 and a profit attributable to the equity owners of the Company of RMB399,316,000.

34 BUSINESS COMBINATION (continued)

(b) 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.

As a result of the acquisition, the Group is expected to increase its presence in the Russia market. It also expects to reduce cost through economies of scale. 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.

The following table summarized the consideration paid for Russia Coating Business, the fair value 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

34 BUSINESS COMBINATION (continued)

(b) Acquisition of Russia Coating Business (continued)

(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.

The Group recognised a gain of RMB5,909,000 as a result of measuring at fair value of its 56% equity interest in Hilong Temerso held before the business combination. The gain is included in "other income" in the consolidated income statement for the year ended 31 December 2014. As at 31 December 2015, the unpaid cash consideration due to Kamelon LLC amounted to RMB1,227,000 (31 December 2014: RMB1,227,000).

(a) In 2014, the revenue included in the consolidated income statement since the acquisition contributed by Russia Coating Business was RMB1,223,000. It also contributed profit of RMB260,000 over the same period.

(b) Had Russia Coating Business been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 would have showed a pro-forma revenue of RMB2,590,073,000 and a profit attributable to the equity owners of the Company of RMB386,559,000.

Subsequent to the completion of the acquisition, Hilong Temerso's legal name was changed to Hilong – Yekaterinburg LLC.

35 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 2014: 53.16%) equity interest in the Company as at 31 December 2015. 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 2015 and 2014, and balances arising from related party transactions as at 31 December 2015 and 2014.

35 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.
Jiangyan Hilong Wire Welding Co., Ltd.
Hilong Oil Pipe Co., Ltd.
Technomash LLC*

* Hilong-Yekaterinburg LLC was merged into Technomash LLC on 22 June 2015.

(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 ventures 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 36.

35 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2015 and 2014, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**58,084**	65,384
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,710**	23,898
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**1,583**	21,551
Technomash LLC	**–**	7,339
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	23
	61,377	118,195
Purchase of materials:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**–**	692
Purchase of property, plant and equipment:		
Hilong Oil Pipe Co., Ltd.	**–**	57,109
Rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**5,398**	5,241
Hilong Oil Pipe Co., Ltd.	**–**	2,102
	5,398	7,343

In 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. (Note 33(b)). The equity interest was acquired at a consideration of RMB4,860,000, from three individuals, who are related parties of the Group. These individuals are Mr. Zhang Jun, the controlling shareholder, Mr. Wang Tao, the executive director of the Group and Mr. Dai Daliang, the senior management of the Group.

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.

35 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**37,387**	38,485
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**929**	21,424
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**–**	8,143
	38,316	68,052
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**36,197**	40,268
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**36,305**	30,880
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**3,052**	15,366
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**794**	1,849
	76,348	88,363
Prepayment to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**1,085**	–
Other payables due to:		
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**30,545**	47,686
Mr. Zhang Jun	**938**	938
	31,483	48,624
Dividend receivables:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**1,796**	–
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,550**	1,550
	3,346	1,550

The receivables and payables from related parties were unsecured, no interest bearing and repayable on demand.

35 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

Key management includes directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Salaries	**8,120**	8,777
Discretionary bonus and allowances	**4,784**	5,193
Social security costs	**731**	805
Share options *(Note 18(b))*	**447**	1,246
	14,082	16,021

36 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 2015	2014	Direct/ Indirect	Principal activities
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.	PRC, 8 March 2002	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, 22 October 2003	USD4,000,000	**38.09%**	38.09%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, 12 November 2003	RMB15,000,000	**100%**	100%	Indirect	Manufacture and distribution of coating materials
Hilong Group of Companies Ltd.	PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment

36 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 2015	2014	Direct/ Indirect	Principal activities
Hilong Pipeline Engineering Technology Service Co., Ltd.	PRC, 9 November 2005	RMB50,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	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	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.	PRC, 17 November 2006	RMB50,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	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

36 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		Direct/ Indirect	Principal activities
			2015	2014		
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.	PRC, 30 April 2007	RMB105,880,000	**95%**	95%	Indirect	Manufacture and distribution of special steel
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	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.	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.	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.	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.	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

36 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 2015	2014	Direct/ Indirect	Principal activities
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, 18 March 2009	USD8,000,400	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, 9 June 2009	RMB6,000,000	**100%**	100%	Indirect	Coating service provision
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 18 September 2009	RMB20,000,000	**51%**	51%	Indirect	Coating service provision
Hilong Drilling & Supply FZE	Dubai, 15 December 2009	AED1,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 29 September 2010	RMB15,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Sucursal Colombia Ltd.	Columbia, 8 February 2012	COP 90,734,500	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	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

36 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 2015	2014	Direct/ Indirect	Principal activities
Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd.	Pakistan, 4 April 2013	PKR5,000,000	**100%**	100%	Indirect	Oil Service provision
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.	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.	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.	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

36 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 2015	2014	Direct/ Indirect	Principal activities
Hilong Offshore Oil Development Co., Ltd.	PRC, 3 December 2014	USD80,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Drilling & Engineering Service Ltd (Malaysia)	Malaysia, 15 January 2014	USD1,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Albania SHPK	Albania, 28 July 2014	ALL3,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Offshore Engineering Limited	PRC, 12 March 2014	RMB50,000,000	**100%**	100%	Indirect	Offshore Oilfield service provision
Hilong Petroleum Offshore Engineering Services (Shanghai) Co. Ltd.	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%**	–	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Perú S.A.C.	Peru, 30 March 2015	PEN3,000	**100%**	–	Indirect	Oilfield service provision
Hilong Oil Service DMCC	Dubai, UAE, 28 June 2015	AED160,000	**100%**	–	Indirect	Oilfield service provision

* The above subsidiaries incorporated in PRC are in the legal form of limited liability company.

37 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 18 March 2016, a dividend of HKD0.0200 (equivalent to approximately RMB0.0168) per share was proposed. Details refer to Note 30.

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

		As at 31 December	
	Note	**2015 RMB'000**	2014 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**46,638**	38,550
Current assets			
Trade and other receivables		**3,589,116**	3,243,884
Cash and cash equivalents		**57,340**	43,580
		3,646,456	3,287,464
Total assets		**3,693,094**	3,326,014
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares		**141,976**	141,972
Other reserves	*Note (a)*	**1,214,162**	1,205,979
Retained earnings	*Note (a)*	**42,808**	86,056
Total equity		**1,398,946**	1,434,007
LIABILITIES			
Non-current liabilities			
Borrowings		**1,083,586**	1,629,961
Current liabilities			
Trade and other payables		**138,701**	543
Borrowings		**1,071,861**	261,503
		1,210,562	262,046
Total liabilities		**2,294,148**	1,892,007
Total equity and liabilities		**3,693,094**	3,326,014

The balance sheet of the Company was approved by the Board of Directors on 18 March 2016 and were signed on its behalf.

Zhang Jun	**Wang Tao (汪濤)**
Director	*Director*

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
As at 1 January 2014	102,860	1,189,425
Profit for the year	87,128	–
Dividend paid relating to 2013	(103,932)	–
Pre-IPO share option plan	–	3,092
2013 Share Option Scheme	–	11,594
Exercise of share options	–	1,868
As at 31 December 2014	86,056	1,205,979
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**

39 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 18 March 2016.

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				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)	(Restated)
Revenue	**2,484,329**	2,575,986	2,452,358	2,264,373	1,833,519
Gross profit	**809,906**	1,020,579	987,591	895,280	751,322
Gross profit margin	**32.6%**	39.6%	40.3%	39.5%	41.0%
Operating profit	**424,521**	535,792	504,194	477,526	421,332
Operating profit margin	**17.1%**	20.8%	20.6%	21.1%	23.0%
Profit for the year	**174,111**	415,174	370,509	361,427	319,892
Profit attributable to:					
Equity owners of the Company	**160,983**	397,692	344,630	345,001	302,020
Non-controlling interests	**13,128**	17,482	25,879	16,426	17,872

Consolidated assets, equity and liabilities	As at 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Restated)
ASSETS					
Non-current assets	**3,476,766**	3,275,391	2,013,386	1,581,635	1,372,166
Current assets	**3,587,633**	3,351,624	2,793,879	2,458,496	2,204,963
Total assets	**7,064,399**	6,627,015	4,807,265	4,040,131	3,577,129
EQUITY AND LIABILITIES					
Total equity	**3,256,136**	3,143,249	2,873,587	2,305,434	2,038,622
Non-current liabilities	**1,152,828**	1,700,393	610,055	443,358	298,752
Current liabilities	**2,655,435**	1,783,373	1,323,623	1,291,339	1,239,755
Total liabilities	**3,808,263**	3,483,766	1,933,678	1,734,697	1,538,507
Total equity and liabilities	**7,064,399**	6,627,015	4,807,265	4,040,131	3,577,129

The above summary does not form a part of the consolidated financial statements.