HILONG

海隆控股有限公司*

Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1623

# PURSUE GROWTH IN A STEADY PACE

## INTERIM REPORT 2015

* For identification purpose only

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This Interim report is printed on environmental paper

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
*(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)

## AUDITOR

PricewaterhouseCoopers

## REGISTERED OFFICE

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Grand Cayman, KY1-1111
Cayman Islands

## HEADQUARTERS

No. 1825, Luodong Road
Baoshan Industrial Zone
Shanghai
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Matheson Street
Causeway Bay
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

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

## STOCK CODE

1623

## WEBSITE AND CONTACT

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# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

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

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | 2015 RMB'000 | % | 2014 RMB'000 | % |
| **Oilfield equipment manufacturing and services** | | | | |
| – Drill pipes | 207,927 | 16.0 | 428,893 | 36.3 |
| – Oil country tubular goods ("**OCTG**") coating services | 111,949 | 8.6 | 125,583 | 10.6 |
| – Drill pipe components | 3,887 | 0.3 | 10,484 | 0.9 |
| – Hardbanding | 7,358 | 0.6 | 12,407 | 1.1 |
| – Others | 7,950 | 0.6 | 11,909 | 0.9 |
| **Subtotal** | 339,071 | 26.1 | 589,276 | 49.8 |
| **Line pipe technology and services** | | | | |
| – OCTG coating materials | 11,321 | 0.9 | 17,244 | 1.5 |
| – Oil and gas line pipe coating materials | 42,064 | 3.2 | 19,083 | 1.6 |
| – Oil and gas line pipe coating services | 42,956 | 3.3 | 38,878 | 3.3 |
| – Corrosion Resistant Alloy ("**CRA**") lined pipe | 10,124 | 0.8 | 33,979 | 2.9 |
| – Concrete Weighted Coating ("**CWC**") services | – | – | 10,631 | 0.9 |
| **Subtotal** | 106,465 | 8.2 | 119,815 | 10.2 |
| **Oilfield services** | 443,395 | 34.1 | 472,519 | 40.0 |
| **Offshore engineering services** | 411,543 | 31.6 | – | – |
| **Total revenue** | 1,300,474 | 100.0 | 1,181,610 | 100.0 |

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

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | 2015 RMB'000 | % | 2014 RMB'000 | % |
| The PRC | 700,176 | 53.8 | 419,321 | 35.5 |
| North and South America | 330,373 | 25.4 | 416,407 | 35.2 |
| Africa | 94,847 | 7.3 | 108,493 | 9.2 |
| Russia, Central Asia and East Europe | 81,454 | 6.3 | 110,168 | 9.3 |
| South Asia | 53,438 | 4.1 | 56,041 | 4.7 |
| Middle East | 33,828 | 2.6 | 71,133 | 6.0 |
| Others | 6,358 | 0.5 | 47 | 0.1 |
| | 1,300,474 | 100.0 | 1,181,610 | 100.0 |

# MANAGEMENT DISCUSSION AND ANALYSIS

Revenue increased by RMB118.9 million, or 10.1%, from RMB1,181.6 million for the six months ended 30 June 2014 to RMB1,300.5 million for the Interim Period. Such increase primarily reflected an increase in revenue from offshore engineering services segment, partially offset by a decrease in revenue from oilfield equipment manufacturing and services segment.

***Oilfield equipment manufacturing and services.*** Revenue from the oilfield equipment manufacturing and services segment decreased by RMB250.2 million, or 42.5%, from RMB589.3 million for the six months ended 30 June 2014 to RMB339.1 million for the Interim Period. 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 periods indicated:

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Sales of drill pipes | | |
| – International market | | |
| – volume (tons) | **5,431** | 11,854 |
| – unit price (RMB/ton) | **22,407** | 23,941 |
| Subtotal (RMB'000) | **121,698** | 283,794 |
| – PRC market | | |
| – volume (tons) | **4,278** | 6,267 |
| – unit price (RMB/ton) | **20,158** | 23,153 |
| Subtotal (RMB'000) | **86,229** | 145,099 |
| Total (RMB'000) | **207,927** | 428,893 |

Revenue from sales of drill pipes in the international market decreased by RMB162.1 million, or 57.1%, from RMB283.8 million for the six months ended 30 June 2014 to RMB121.7 million for the Interim Period. The decrease primarily reflected a 54.2% decrease in the volume of drill pipes sold, from 11,854 tonnes for the six months ended 30 June 2014 to 5,431 tonnes for the Interim Period and, to a lesser extent, a 6.4% decrease in average selling price sold in the international market from RMB23,941 per tonne for the six months ended 30 June 2014 to RMB22,407 per tonne for the Interim Period. The decrease in the sales volume primarily reflected the delay in 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 the Interim Period compared to that for the six months ended 30 June 2014.

Revenue from sales of drill pipes in the PRC market decreased by RMB58.9 million, or 40.6%, from RMB145.1 million for the six months ended 30 June 2014 to RMB86.2 million for the Interim Period. The decrease primarily reflected a 31.7% decrease in volume of drill pipes sold in the PRC market from 6,267 tonnes for the six months ended 30 June 2014 to 4,278 tonnes for the Interim Period and, to a lesser extent, a 12.9% decrease in average selling price sold in the PRC market from RMB23,153 per tonne for the six months ended 30 June 2014 to RMB20,158 per tonne for the Interim Period. The decrease in the sales volume primarily reflected the delay in capital and operation spending by certain oil and gas companies in the PRC market. While the decrease in average selling price primarily reflected (i) the fact that steel prices decreased in the Interim Period compared to that for the six months ended 30 June 2014, and (ii) the change of product matrix in the Interim Period compared to that in the six months ended 30 June 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

***Line pipe technology and services.*** Revenue from line pipe technology and services segment decreased by RMB13.3 million, or 11.1%, from RMB119.8 million for the six months ended 30 June 2014 to RMB106.5 million for the Interim Period. Such decrease primarily reflected decrease in the revenue derived from CRA lined pipe and CWC services, partially offset by the increase in the revenue from line pipe coating materials and services.

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 the Interim Period.

The increase in revenue from oil and gas line pipe coating materials and services primarily reflected our continuous efforts to promote our oil and gas line pipe business in the international market.

***Oilfield services.*** Revenue from the oilfield services segment decreased by RMB29.1 million, or 6.2%, from RMB472.5 million for the six months ended 30 June 2014 to RMB443.4 million for the Interim Period. Such decrease was mainly attributable to the decrease in revenue from trading and logistic services of OCTG to oilfield services clients for the Interim Period as compared to the six months ended 30 June 2014.

***Offshore engineering services.*** Newly established in 2014, the offshore engineering services segment focus 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 the Interim Period represented the revenue recognized using percentage-of-completion method under the two offshore engineering, procurement, construction and installation ("**EPCI**") service contracts with CNOOC China Limited.

### Cost of Sales/Services

Cost of sales increased by RMB137.0 million, or 18.7%, from RMB733.6 million for the six months ended 30 June 2014 to RMB870.6 million for the Interim Period. Such increase primarily reflected an increase in cost of the offshore engineering services segment, partially offset by a decrease in cost of the oilfield equipment manufacturing and services segment.

### Gross Profit and Gross Margin

As a result of the foregoing, gross profit decreased by RMB18.1 million, or 4.0%, from RMB448.0 million for the six months ended 30 June 2014 to RMB429.9 million for the Interim Period. Gross margin decreased from 37.9% for the six months ended 30 June 2014 to 33.1% for the Interim Period.

The decrease in gross margin primarily reflected (i) higher portion of revenue derived from offshore engineering services segment, which had lower gross margin in the Interim Period due to its first year of operation, and (ii) decrease in gross margin from line pipe technology and services segment, reflecting higher portion of revenue derived from oil and gas line pipe coating materials, which generally have lower gross margin.

Gross margin of oilfield equipment manufacturing and services segment and oilfield services segment remained stable for the Interim Period compared to that for the six months ended 30 June 2014.

### Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB20.8 million, or 29.9%, from RMB69.5 million for the six months ended 30 June 2014 to RMB48.7 million for the Interim Period, which was mainly attributable to higher portion of revenue derived from the offshore engineering services segment, which generally incurs less selling and marketing expenses occurred compared to that for the other three segments of the Group.

### Administrative Expenses

Administrative expenses increased by RMB19.5 million, or 11.9%, from RMB163.3 million for the six months ended 30 June 2014 to RMB182.8 million for the Interim Period. Such increase primarily reflected (i) specific provision for impairment of certain receivables increased by RMB9.4 million in the Interim Period compared to that for the six months ended 30 June 2014, (ii) an increase in staff costs and office expenses incurred in connection with the expansion of the oilfield services business, and (iii) an increase in expenses incurred in connection with the R&D activities for the upgrading of coating materials.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Other (Losses)/Gain – Net

The Group recognized net gain of RMB23.2 million for the six months ended 30 June 2014 and net loss of RMB13.0 million for the Interim Period. The net loss recognized for the Interim Period primarily reflected a net loss of RMB17.7 million in foreign exchange losses, partially offset by RMB6.4 million in government grants in relation to new and high-technology projects. The net gain recognized for the six months ended 30 June 2014 primarily reflected (i) a net gain of RMB13.8 million in foreign exchange gain, and (ii) RMB6.7 million in government grants in relation to new and high-technology projects.

### Finance Costs – Net

Finance costs – net decreased by RMB2.5 million, or 5.1%, from RMB49.5 million for the six months ended 30 June 2014 to RMB47.0 million for the Interim Period. Such decrease primarily reflected the (i) increase of interest income derived from bank deposits for the Interim Period, (ii) decrease of foreign exchange losses-net related to bank borrowings denominated in currency other than the Company's functional currency, partially offset by the increase of interest expense from bank borrowings due to increase in bank borrowings.

### Profit before Income Tax

As a result of the foregoing, profit before income tax decreased from RMB191.3 million for the six months ended 30 June 2014 to RMB138.0 million for the Interim Period.

### Income Tax Expense

The Group recognized income tax expense of RMB2.0 million for the six months ended 30 June 2014 and RMB29.0 million for the Interim Period. Effective tax rate was approximately 1.0% for the six months ended 30 June 2014 and 21.0% for the Interim Period. 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 during the six months ended 30 June 2014; we decreased the initial accrual rate of 10% to a preferential rate of 5% 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 for the Period Attributable to Equity Owners of the Company

As a result of the foregoing, profit for the period attributable to equity owners of the Company decreased from RMB179.3 million for the six months ended 30 June 2014 to RMB108.8 million for the Interim Period.

### Inventories

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

| | **As at 30 June 2015 RMB'000** | As at 31 December 2014 RMB'000 |
|---|---|---|
| Inventory | **786,216** | 840,540 |
| Turnover days of inventory (in days)(1) | **170** | 185 |

(1) Turnover days of inventory for a period or a year equals to average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2014. Average inventory equals to inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The decrease in inventory turnover days from 185 days as at 31 December 2014 to 170 days as at 30 June 2015 primarily reflected (i) a decrease in inventory balance for the oilfield equipment manufacturing and services segment, and (ii) higher portion of revenue derived from provision of services, which generally requires less consumption of inventory compared to that for sales of goods.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Trade and Other Receivables

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

| | **As at 30 June 2015 RMB'000** | As at 31 December 2014 RMB'000 |
|---|---|---|
| Trade receivables | | |
| – Due from third parties | **1,610,570** | 1,492,739 |
| – Due from related parties | **39,619** | 68,052 |
| – Less: Provision for impairment of receivables | **(36,276)** | (25,793) |
| Trade receivables – net | **1,613,913** | 1,534,998 |
| Other receivables | | |
| – Due from third parties | **102,545** | 78,269 |
| – Due from related parties | **81,571** | 88,363 |
| Other receivables | **184,116** | 166,632 |
| Bills receivable | **85,132** | 70,397 |
| Prepayments | **122,752** | 105,589 |
| Others | **1,550** | 1,550 |
| Total | **2,007,463** | 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 aging analysis of trade receivables due from third party and related parties as at the dates indicated and turnover days of the net trade receivables as at the dates indicated:

| | **As at 30 June 2015 RMB'000** | As at 31 December 2014 RMB'000 |
|---|---|---|
| Trade receivables, net | | |
| – Within 90 days | **772,263** | 1,012,791 |
| – Over 90 days and within 180 days | **243,725** | 187,679 |
| – Over 180 days and within 360 days | **417,699** | 129,314 |
| – Over 360 days and within 720 days | **138,335** | 168,441 |
| – Over 720 days | **41,891** | 36,773 |
| | **1,613,913** | 1,534,998 |
| Turnover days of trade receivables, net[(1)] | **220** | 192 |

(1) Turnover days of trade receivables for a period or a year equals to average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2014. Average trade receivables equals to balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2015, trade receivables of RMB841.7 million, representing 51.0% of the Group's trade receivables before 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 30 June 2015, 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 220 days as at 30 June 2015 primarily reflected that settlement for trade receivables was less active in the first half of a year than that in the second half of a year, which is a common industry practice especially in the PRC market.

### Trade and Other Payables

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

| | **As at 30 June 2015 RMB'000** | As at 31 December 2014 RMB'000 |
|---|---|---|
| Bills payable | **91,345** | 128,776 |
| Trade payables | | |
| – Due to third parties | **712,656** | 560,352 |
| Other payables | | |
| – Due to related parties | **48,288** | 48,624 |
| – Due to third parties | **60,157** | 86,494 |
| Staff salaries and welfare payables | **31,477** | 37,122 |
| Advance from customers | **48,372** | 25,533 |
| Interest payables | **866** | 1,096 |
| Accrued taxes other than income tax | **29,631** | 42,145 |
| Dividends payable | **68,388** | 1,463 |
| Other liabilities | **12,263** | 10,845 |
| | **1,103,443** | 942,450 |

# MANAGEMENT DISCUSSION AND ANALYSIS

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

| | As at 30 June 2015 RMB'000 | As at 31 December 2014 RMB'000 |
|---|---|---|
| Trade payables, gross | | |
| – Within 90 days | 577,077 | 485,303 |
| – Over 90 days and within 180 days | 42,123 | 52,707 |
| – Over 180 days and within 360 days | 93,415 | 20,440 |
| – Over 360 days and within 720 days | 41 | 463 |
| – Over 720 days | – | 1,439 |
| | 712,656 | 560,352 |
| Turnover days of trade payables(1) | 133 | 106 |

(1) Turnover days of trade payables for a period or a year equals to average trade payables divided by total cost of sales and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2014. Average trade payables equals to balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2014 to 30 June 2015 primarily reflected the increase of unbilled payables due to suppliers recorded using percentage-of-completion method for offshore engineering services segment.

## DIVIDENDS

On 15 July 2015, a final dividend of HK5.0 cents per share of the Company, amounting to a total dividend of approximately HK$84,822,000 (equivalent to approximately RMB66,925,000) for the year ended 31 December 2014, was paid to shareholders of the Company.

The Board resolved not to declare any interim dividend for the Interim Period (2014: nil).

## BUSINESS REVIEW

In the first half of 2015, the global oil and gas market remained weak and brought relatively severe challenges to Hilong's operation during this period. In particular, the international oil price continued to hover at the low levels which caused certain of our customers to adjust their capital expenditure plans, and therefore impacted on the demand for certain of Hilong's products and services and consequentially brought pressure on the Company's operation. The year of 2015 is also Hilong's first year of operation after the implementation of the new strategic layout of its businesses. After the early stage of preparation, our new businesses such as offshore engineering services have already started to generate revenue in 2015 and will become the continuous growth impetus for the Company's overall development in the future. On the whole, Hilong maintained steady operation during the Interim Period and recorded a total revenue of RMB1,300 million, indicating a growth of 10.1% over the corresponding period of 2014. The net profit attributable to equity owners of the Company amounted to RMB109 million, representing a decrease of 39.3% as compared with the first half of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Oilfield Services

Overall, Hilong's oilfield services segment maintained healthy operation in 2015. During the Interim Period, this segment achieved a total revenue of RMB443 million, indicating a slight decrease from the corresponding period of 2014. As the core business of the segment, the drilling services maintained steady development. During the Interim Period, revenue generated from drilling services was more or less the same as compared with that of first half of 2014. While most of our domestic and international peers in the industry confronted with the difficulties of sharp decline of work volume and dramatic decrease of day rate, Hilong still managed to maintain normal operation of its existing drilling rigs and retain relatively strong bargaining power in terms of pricing under the volatile market environment relying on its high-end rig fleet, advanced technology, diversified customer base and its strategic regional presence. During the Interim Period, Hilong also successfully won a drilling service contract from a new customer, Poly-GCL Petroleum Group Holdings Limited ("**Poly-GCL**"), and will provide drilling services to Poly-GCL in the newly developed regional market Ethiopia with two new drilling rigs within the year. This will further expand Hilong's drilling rig fleet and the business scope of its drilling services. Hilong's capability of engaging new customers and winning new contracts under tough market conditions fully demonstrated its leading market position in the field of premium onshore drilling and the high recognition from its customers. Going forward, Hilong will continue to expand its high-end drilling rig fleet, explore top-tier international customers and march into new regional markets in a planned manner in order to reinforce its leading position in this business field.

### Oilfield Equipment Manufacturing and Services

The oilfield equipment manufacturing and services segment achieved a total revenue of RMB339 million in the first half of 2015, reflecting a decrease of 42.5% over the same period of 2014. During the Interim Period, revenue generated from the drill pipe and related products business amounted to RMB227 million, representing a year-on-year decline of 51.0%. The decline of revenue of Hilong's drill pipe business was mainly attributable to the reduced capital expenditures by certain customers in the industry as a result of the factors including the continuing weakening of international oil price and the adjustments made by the oil and gas industry in China. Despite multiple unfavorable market factors, Hilong still managed to maintain a leading and stable market position in China and continued a steady pace of growth in overseas markets for its drill pipe products. While the general market conditions of the global oil and gas industry remained harsh, Russia and the surrounding areas still maintained relatively stable oil and gas exploration and production activities. Hilong acutely perceived the market changes, actively adjusted its regional focus for drill pipe sales, and mobilized resources to further exploit the demand for drill pipes in Russia and the surrounding areas. Hilong has always paid great attention to the market promotion of premium products. Certain non-API drill pipe products such as sour-service drill pipe have been highly recognized by the customers and widely applied across the industry; other new products including drill pipe with radio frequency identification and super high strength drill pipe (grade U165) are in the key stage of market promotion.

The OCTG coating services business realized a total revenue of RMB112 million during the Interim Period, representing a decrease of 10.9% as compared with the first half of 2014. This line of business has seen steady development in recent years and made notable achievement in expanding capacity and developing product range. Texas Internal Pipe Coating, LLC ("**TIPC**"), the US OCTG coating service plant acquired by Hilong in 2014, had been operating smoothly and widely recognized by local customers. The advanced technology and high profitability of TIPC drove the overall development of Hilong's OCTG coating services business and reinforced the overall market influence of Hilong brand in the North America region. While maintaining the leading position in the field of drill pipe coatings, Hilong has also been actively promoting the application of coating on tubings and casings in the market in order to expand the service scope and revenue sources. All these initiatives further strengthened the Company's competitiveness in this business segment.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Line Pipe Technology and Services

The line pipe technology and services segment experienced revenue drop by 11.1% to RMB106 million in the first half of 2015. The operation of this segment still faced tough challenges in 2015. Nevertheless, Hilong still managed to obtain certain orders at home and abroad under such challenging market environment relying on its solid track record established through participation in the large domestic projects such as West-East Gas Pipe Line Project Phase I and II as well as the experiences accumulated from overseas projects 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 of which Hilong jointly won the bid with Baosteel. In particular, this segment provided the traditional line pipe coating for anti-corrosion purpose and the offshore concrete weighted coating services for the Company's offshore pipe-laying construction of CNOOC's East China Sea Project (the "**CNOOC East China Sea Project**"). Through close cooperation with the Company's offshore engineering services segment, the line pipe technology and services segment significantly improved the overall efficiency of the CNOOC East China Sea Project while ensuring the quality of its services, and made remarkable contribution to the successful execution of the CNOOC East China Sea Project for the Company. The line pipe inspection business maintained a promising development and won another service contract from CNPC to provide inspection services for a specific section of the Shan-Jing III Project (「陝京三線」). Hilong has also been actively following up with other customers regarding the potential opportunities for the provision of inspection services. All of the above achievements in the new businesses were in line with Hilong's strategy of focusing on diversification and high-end development for its line pipe technology and services segment and will effectively improve the overall profitability of this segment. Synergistic development between domestic and international markets will also help Hilong to expand its revenue sources, balance the market risks and enhance Hilong's international competitiveness in the field of line pipe coating services.

### Offshore Engineering Services

In 2015, with the operation of the offshore pipe-laying and derrick vessel, "Hilong 106", as the starting point, Hilong officially launched the offshore engineering services business and opened a new chapter of moving to offshore-related business from onshore operation. Representing one of Hilong's forward-looking strategies, developing the offshore engineering services business will inject continuous growth impetus for the Company and effectively improve the anti-risk capability of the Company while generating new revenue sources. In the Interim Period, Hilong successfully laid offshore pipe lines for the CNOOC East China Sea Project and the Weizhou Phase II Project using "Hilong 106", and recorded a total revenue of RMB412 million. Hilong treats safety and efficiency as its top priority. During the execution of these two projects, Hilong set several new records in terms of construction efficiency for projects of same category in China's offshore engineering services field by relying on its rigorous design proposals and professional on-site work while strictly implementing all the HSE standards and ensuring the quality of construction. Hilong's achievements in these two projects were highly appraised by the customer. The offshore engineering design service team under the offshore engineering services segment provided strong technical support for the execution of the above two major contracts. During the execution of the two projects, several innovative design plans proposed by Hilong's offshore engineering design service team were highly recognized by the customer and had been testified in the execution process. Certain design proposals have already been adopted by CNOOC as the new criteria for design and construction for similar projects in the future. The successful execution of the two projects made Hilong the first domestic private company to win and execute the EPCI service contracts of such a large scale in the field of offshore engineering services and also proved to the market Hilong's high-standard capability for offshore engineering design, construction and integrated services. This not only elevated 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

Looking into the second half of 2015, the Company has confidence in maintaining stable operation of the overall business despite facing the continuous market challenges, including the volatile international oil price and the market demand which is still under adjustment. In the past few years, Hilong actively explored the path for reform and development and established a diversified business portfolio through restructuring existing businesses and expanding into new territories. This was mainly attributable to Hilong's strategic vision which was ahead of the industry trend. In the future, Hilong will continue to focus on specialized operation while endeavour to improve profitability and anti-risk 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

Hilong's oilfield services segment will continue the trend of steady development. The sustained and stable operation of the existing rigs will be the foundation to maintain steady operation of the entire oilfield services segment at the moment. The Company will maintain open communications with its existing customers and improve the operational efficiency of existing projects while ensuring the smooth continuation of contracts. The Company will soon put into service a 3,000HP drilling rig and two 2,000HP drilling rigs in the second half of 2015 in Albania and Ethiopia for the commencement of drilling services for Shell and Poly-GCL. This will bring in stable revenue streams after 2015 and lay the groundwork for sustainable growth of drilling services in the next few years. In addition, Hilong will continue to pursue new opportunities including developing new regional markets and engaging new customers. Currently, the Company is actively tracking potential customers and orders from new regional markets including the Middle East and strives to establish the business layout in new strategic regions in a short time so as to enter the local mainstream markets. Meanwhile, the Company will continue to expand the business horizon, develop comprehensive services and improve the capability of providing integrated services.

### Oilfield Equipment Manufacturing and Services

After years of efforts, Hilong has made significant achievement in developing overseas markets for its drill pipe business. However, Hilong's overall global market share was still limited, indicating a huge potential to capture greater market share in the international market and of enhanced influence of its brand name in the future. The Company will continue to cultivate individual key markets including Russia and the surrounding regions and strengthen its leading position in these markets. In addition, the Company will intensify its efforts to promote sales of non-API drill pipe products and related services with high added value across overseas markets and enhance the degree of recognition of the Hilong brand among the international customers. As the oil price stabilizes and the market outlook for the global oil and gas industry improves, the prospect for the drill pipe and related products business, which is one of Hilong's traditional core businesses, will also return to the track of steady development.

In recent years, Hilong has deployed new production capacity or upgraded the existing production facility for its OCTG coating services business in key strategic locations both domestically and internationally in a planned manner. At present, the Company's major OCTG coating service plants are fully equipped with the capacity and capability of applying coatings for the entire series of OCTG pipes and a variety of new types of pipes. This remarkably broadened the business scope of Hilong's OCTG coating services, effectively improved production efficiency, and enabled Hilong to seize the opportunities brought by the growing demand for high-end coatings applied onto tubings and casings as well as other new types of pipes from the aspects of technology and production capability. Hilong will continue to focus on market development, actively nurture new market demands so as to realize the optimization of production capacity and achieve steady growth in the new development era.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Line Pipe Technology and Services

The line pipe technology and services segment will adopt a development strategy featured with diversification, high-end orientation and internationalization. As the global oil and gas market adjusts positively, the major line pipe construction projects in China and overseas markets will also gradually commence or resume construction. Hilong's line pipe coating services business will also embrace such new development opportunities. Hilong has provided coating services for several international line pipe construction projects in recent years, accumulated extensive experiences and established a good reputation among international customers with its qualification and capability widely accepted. While continuing to actively participate in major domestic projects and solidify its domestic market position, Hilong will increase its efforts to explore overseas markets, particularly to seek opportunities to participate in major international projects for its newly developed premium businesses such as CRA and CWC and establish a track record. The "One Belt One Road"[1] development strategy introduced by the Chinese government will also generate opportunities for Hilong to participate in the line pipe construction projects of the relevant countries which are geographically along the "One Belt One Road". 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 line pipe technology and services segment will continue to closely cooperate with the offshore engineering services segment and strive for more line pipe coating services business related to the offshore pipe-laying construction so as to fully utilize the synergy between the business segments. Hilong will also commit resources to develop the high-end CRA and CWC businesses into the new drivers leading the future growth of the segment. The Company will also accelerate the development of its line pipe inspection business, further develop the market and strengthen the market position. This will help Hilong to extend and improve the value chain for line pipe services and achieve the goal of growing into a one-stop solution provider for line pipe services as soon as possible. In terms of cooperation within the industry, Hilong has entered into framework agreements of strategic cooperations 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 partner with CNPC to explore new development directions in the areas including traditional line pipe coating for anti-corrosion purpose, offshore concrete weighted coating and line pipe inspection, develop and advance new technology and seek potential opportunities for cooperation. The signing of these strategic cooperation agreements will enable Hilong to elevate the level and expand the scope of cooperation with CNPC.

### Offshore Engineering Services

The offshore pipe-laying and derrick vessel "Hilong 106" will soon complete the work of offshore pipe-laying for CNOOC's Weizhou Phase II Project and East China Sea Project in the second half of 2015, which marks the most outstanding achievement for Hilong of the year. The launch and development of offshore engineering services business will inject continuous growth impetus for Hilong in the new development era, and bring new development opportunities for existing businesses such as the line pipe coating services and generate synergies between different segments of the Company. At the moment, the Company is actively exploring other potential business opportunities, especially projects from the Southeast Asia market, in a hope to obtain more contracts for "Hilong 106" in 2015. The offshore engineering design service will also expedite its development and extend the design and consultation services to external customers apart from providing solid technical support to the operation of "Hilong 106". In addition, 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**") recently, and will conduct cooperation with CPOE in the fields including offshore engineering design and construction and jointly promote the development of new technology, new materials and new skills and processes for offshore engineering services. 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 and consultation services. This demonstrates the wide recognition of Hilong's high-standard capability of providing offshore engineering design, construction and integrated services by the domestic market. Going forward, Hilong will continue to

[1] "One Belt One Road" is the abbreviation of the initiatives proposed by the Chinese government to build the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road". These initiatives are designed to develop Economic Partnership with the countries which are geographically along the "One Belt One Road" and consist of construction of various infrastructure including railway, oil and gas pipelines and power grids across the Eurasian continent.

# MANAGEMENT DISCUSSION AND ANALYSIS

broaden and intensify the strategic cooperation with the premium domestic customers and build a solid track record in China market. Meanwhile, Hilong is actively seeking to establish communication and cooperation with the high-profile international players in the field of offshore engineering services in order to pave the road to enter into the international markets. Recently, Hilong has held a senior-level meeting with Saipem S.p.A. to promote in-depth cooperation and discussed the specific scope and forms of cooperation during the meeting. Saipem S.p.A. will soon commence the certification procedure and bring Hilong into its procurement system.

We strongly believe that, with our endeavors, Hilong will continue to generate stable and substantial returns to the shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

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

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Net cash from/(used in) operating activities | **166,108** | (84,293) |
| Net cash used in investing activities | **(137,501)** | (386,913) |
| Net cash (used in)/from financing activities | **(60,374)** | 807,551 |
| Net (decrease)/increase in cash and cash equivalents | **(31,767)** | 336,345 |
| Exchange (losses)/gains on cash and cash equivalents | **(107)** | 4,150 |
| Cash and cash equivalents at beginning of the period | **548,057** | 390,889 |
| Cash and cash equivalents at end of the period | **516,183** | 731,384 |

### Operating Activities

Net cash from operating activities for the Interim Period was RMB166.1 million, representing cash generated from operations of RMB261.8 million, partially offset by the interest payment of RMB44.4 million and income tax payment of RMB51.3 million.

Net cash used in operating activities for the six months ended 30 June 2014 was RMB84.3 million, representing the interest payment of RMB64.7 million and income tax payment of RMB44.5 million, partially offset by cash generated from operations of RMB24.9 million.

### Investing Activities

Net cash used in investing activities for the Interim Period was RMB137.5 million, primarily reflecting payment of RMB136.9 million for purchases of property, plant and equipment.

Net cash used in investing activities for the six months ended 30 June 2014 was RMB386.9 million, primarily reflecting payment of RMB332.4 million for purchases of property, plant and equipment, and payment of RMB57.3 million for acquisition of subsidiary.

### Financing Activities

Net cash used in financing activities for the Interim Period was RMB60.4 million, primarily reflecting proceeds of RMB235.0 million from borrowings, offset by repayment of borrowings of RMB295.5 million.

Net cash generated from financing activities for the six months ended 30 June 2014 was RMB807.6 million, primarily reflecting proceeds of RMB1,228.1 million from borrowings, offset by (i) repayment of borrowings of RMB280.3 million, (ii) dividends payment of RMB103.9 million, and (iii) net cash out flow of RMB22.6 million arising from security deposit for bank borrowings.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL EXPENDITURES

Capital expenditures were RMB396.1 million and RMB195.2 million for the six months ended 30 June 2014 and the Interim Period respectively. The decrease in capital expenditures for the Interim Period primarily reflected the one-off procurement of pipe-laying vessel for offshore engineering services segment for the six months ended 30 June 2014.

## INDEBTEDNESS

As at 30 June 2015, the outstanding indebtedness of RMB2,410.1 million was mainly denominated in USD, HKD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

| | As at 30 June 2015 RMB'000 | As at 31 December 2014 RMB'000 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings – unsecured | **1,882,168** | 1,891,464 |
| Less: Current portion of non-current borrowings | **(635,152)** | (261,503) |
| | **1,247,016** | 1,629,961 |
| **Current** | | |
| Bank borrowings – secured | **49,020** | 22,028 |
| Bank borrowings – unsecured | **478,880** | 549,081 |
| Current portion of non-current borrowings | **635,152** | 261,503 |
| | **1,163,052** | 832,612 |
| | **2,410,068** | 2,462,573 |

The bank borrowings of RMB49.0 million were secured by certain bank deposits of the Group, with a carrying amount of RMB32.5 million as at 30 June 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

The gearing ratios as at 30 June 2015 and 31 December 2014 are as follows:

| | **As at 30 June 2015 RMB'000** | As at 31 December 2014 RMB'000 |
|---|---|---|
| Total borrowings | **2,410,068** | 2,462,573 |
| Less: Cash and cash equivalents | **(516,183)** | (548,057) |
| Net debt | **1,893,885** | 1,914,516 |
| Total equity | **3,175,847** | 3,143,249 |
| Total capital | **5,069,732** | 5,057,765 |
| Gearing ratio | **37.36%** | 37.85% |

## FOREIGN EXCHANGE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily the United States dollar ("**USD**"). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 26.2% appreciation of RMB against the USD from 21 July 2005 to 30 June 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 47.2% and 66.7% of the total revenue of the Company for the six months ended 30 June 2014 and the Interim Period, respectively.

## STAFF AND REMUNERATION POLICY

As at 30 June 2015, the total number of full-time employees employed by the Group was 2,831 (31 December 2014: 2,658). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2015:

| | |
|---|---|
| On-site workers | 1,573 |
| Administrative | 573 |
| Research and development | 175 |
| Engineering and technical support | 339 |
| Company management | 41 |
| Sales, marketing and after-sales services | 130 |
| | 2,831 |

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

*AS AT 30 JUNE 2015*

| | Note | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 2,941,126 | 2,856,379 |
| Lease prepayments | 7 | 91,753 | 92,821 |
| Intangible assets | 7 | 159,186 | 159,377 |
| Investments accounted for using equity method | | 56,208 | 56,660 |
| Deferred income tax assets | | 112,166 | 109,355 |
| Other long-term assets | 8 | 1,385 | 799 |
| | | 3,361,824 | 3,275,391 |
| **Current assets** | | | |
| Inventories | | 786,216 | 840,540 |
| Trade and other receivables | 9 | 2,007,463 | 1,879,166 |
| Current income tax assets | | 10,209 | – |
| Restricted cash | | 74,140 | 83,861 |
| Cash and cash equivalents | | 516,183 | 548,057 |
| | | 3,394,211 | 3,351,624 |
| **Total assets** | | 6,756,035 | 6,627,015 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the equity owners of the Company** | | | |
| Ordinary shares | 10 | 141,976 | 141,972 |
| Other reserves | 11 | 1,121,573 | 1,117,187 |
| Retained earnings | | 1,819,924 | 1,778,090 |
| Currency translation differences | | (132,698) | (118,809) |
| | | 2,950,775 | 2,918,440 |
| **Non-controlling interests** | | 225,072 | 224,809 |
| **Total equity** | | 3,175,847 | 3,143,249 |

The notes on page 24 to 54 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

*AS AT 30 JUNE 2015*

| | *Note* | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *12* | **1,247,016** | 1,629,961 |
| Deferred income tax liabilities | | **42,138** | 44,448 |
| Derivative financial instruments | | **1,642** | 2,406 |
| Deferred revenue | | **22,816** | 23,578 |
| | | **1,313,612** | 1,700,393 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **1,103,443** | 942,450 |
| Current income tax liabilities | | **–** | 6,953 |
| Borrowings | *12* | **1,163,052** | 832,612 |
| Derivative financial instruments | | **20** | 1,236 |
| Deferred revenue | | **61** | 122 |
| | | **2,266,576** | 1,783,373 |
| **Total liabilities** | | **3,580,188** | 3,483,766 |
| **Total equity and liabilities** | | **6,756,035** | 6,627,015 |
| **Net current assets** | | **1,127,635** | 1,568,251 |
| **Total assets less current liabilities** | | **4,489,459** | 4,843,642 |

The notes on page 24 to 54 are an integral part of this condensed consolidated interim financial information.

Approved by the Board of Directors on 21 August 2015.

**Zhang Jun**
*Director*

**Wang Tao (汪濤)**
*Director*

# CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

| | Note | (Unaudited) Six months ended 30 June 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Revenue** | *6(a)* | **1,300,474** | 1,181,610 |
| Cost of sales | | **(870,569)** | (733,596) |
| **Gross profit** | | **429,905** | 448,014 |
| Selling and marketing expenses | | **(48,704)** | (69,450) |
| Administrative expenses | | **(182,778)** | (163,305) |
| Other (losses)/gain – net | *14* | **(12,954)** | 23,173 |
| **Operating profit** | | **185,469** | 238,432 |
| Finance income | *15* | **5,570** | 1,234 |
| Finance costs | *15* | **(52,542)** | (50,715) |
| Finance costs – net | | **(46,972)** | (49,481) |
| Share of (losses)/profit of investments accounted for using equity method | | **(452)** | 2,335 |
| **Profit before income tax** | | **138,045** | 191,286 |
| Income tax expense | *16* | **(29,023)** | (1,960) |
| **Profit for the period** | | **109,022** | 189,326 |
| **Profit attributable to:** | | | |
| Equity owners of the Company | | **108,759** | 179,318 |
| Non-controlling interests | | **263** | 10,008 |
| | | **109,022** | 189,326 |
| **Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)** | | | |
| – Basic | *17* | **0.0641** | 0.1057 |
| – Diluted | *17* | **0.0641** | 0.1048 |

The notes on page 24 to 54 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** **RMB'000** | 2014 RMB'000 |
| **Profit for the period** | **109,022** | 189,326 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss* | | |
| Currency translation differences | **(13,889)** | (3,604) |
| **Total comprehensive income for the period** | **95,133** | 185,722 |
| **Attributable to:** | | |
| Equity owners of the Company | **94,870** | 175,714 |
| Non-controlling interests | **263** | 10,008 |
| | **95,133** | 185,722 |

The notes on page 24 to 54 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

| | | (Unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Capital and reserves attributable to equity owners | | | | | | |
| | *Note* | Ordinary shares RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Cumulative translation differences RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **As at 1 January 2014** | | 141,897 | 1,102,061 | 1,487,419 | (76,048) | 2,655,329 | 218,258 | 2,873,587 |
| **Comprehensive income** | | | | | | | | |
| Profit for the period | | – | – | 179,318 | – | 179,318 | 10,008 | 189,326 |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences | | – | – | – | (3,604) | (3,604) | – | (3,604) |
| **Total comprehensive income for the period** | | – | – | 179,318 | (3,604) | 175,714 | 10,008 | 185,722 |
| **Transactions with owners** | | | | | | | | |
| Pre-IPO share option plan | *11(a)* | – | 1,932 | – | – | 1,932 | – | 1,932 |
| 2013 Share Option Scheme | *11(a)* | – | 4,284 | – | – | 4,284 | – | 4,284 |
| Exercise of share options | *10(a)* | 58 | 1,466 | – | – | 1,524 | – | 1,524 |
| Transactions with non-controlling interests | *21* | – | (4,517) | – | – | (4,517) | (10,931) | (15,448) |
| Dividends in respect of 2013 | *18* | – | – | (103,932) | – | (103,932) | – | (103,932) |
| **Total transaction with owners** | | 58 | 3,165 | (103,932) | – | (100,709) | (10,931) | (111,640) |
| **As at 30 June 2014** | | 141,955 | 1,105,226 | 1,562,805 | (79,652) | 2,730,334 | 217,335 | 2,947,669 |
| **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 period | | **–** | **–** | **108,759** | **–** | **108,759** | **263** | **109,022** |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences | | **–** | **–** | **–** | **(13,889)** | **(13,889)** | **–** | **(13,889)** |
| **Total comprehensive income for the period** | | **–** | **–** | **108,759** | **(13,889)** | **94,870** | **263** | **95,133** |
| **Transactions with owners** | | | | | | | | |
| Pre-IPO share option plan | *11(a)* | **–** | **769** | **–** | **–** | **769** | **–** | **769** |
| 2013 Share Option Scheme | *11(a)* | **–** | **3,522** | **–** | **–** | **3,522** | **–** | **3,522** |
| Exercise of share options | *10(a)* | **4** | **95** | **–** | **–** | **99** | **–** | **99** |
| Dividends in respect of 2014 | *18* | **–** | **–** | **(66,925)** | **–** | **(66,925)** | **–** | **(66,925)** |
| **Total transaction with owners** | | **4** | **4,386** | **(66,925)** | **–** | **(62,535)** | **–** | **(62,535)** |
| **As at 30 June 2015** | | **141,976** | **1,121,573** | **1,819,924** | **(132,698)** | **2,950,775** | **225,072** | **3,175,847** |

The notes on page 24 to 54 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| **Cash flow from operating activities** | | |
| Cash generated from operations | **261,816** | 24,914 |
| Interest paid | **(44,402)** | (64,683) |
| Income tax paid | **(51,306)** | (44,524) |
| **Net cash generated from/(used in) operating activities** | **166,108** | (84,293) |
| **Cash flow from investing activities** | | |
| Proceeds from disposal of property, plant and equipment | **27** | 4,308 |
| Purchases of property, plant and equipment | **(136,878)** | (332,376) |
| Purchases of intangible assets | **(650)** | (3,391) |
| Business combination | **–** | (57,329) |
| Dividends received | **–** | 1,875 |
| **Net cash used in investing activities** | **(137,501)** | (386,913) |
| **Cash flow from financing activities** | | |
| Proceeds from borrowings | **235,044** | 1,228,124 |
| Repayments of borrowings | **(295,517)** | (280,334) |
| Net cash outflow arising from security deposit for bank borrowings | **–** | (22,584) |
| Proceeds from share options exercised | **99** | 1,524 |
| Dividends | **–** | (103,925) |
| Dividends paid to the then equity owner of the subsidiary | **–** | (9,470) |
| Dividends paid to non-controlling interests of the subsidiary | **–** | (924) |
| Acquisition of additional interests in subsidiaries | **–** | (4,860) |
| **Net cash (used in)/generated from financing activities** | **(60,374)** | 807,551 |
| **Net (decrease)/increase in cash and cash equivalents** | **(31,767)** | 336,345 |
| Exchange (losses)/gain on cash and cash equivalents | **(107)** | 4,150 |
| Cash and cash equivalents at beginning of the period | **548,057** | 390,889 |
| **Cash and cash equivalents at end of the period** | **516,183** | 731,384 |

The notes on page 24 to 54 are an integral part of this condensed consolidated interim financial information.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 1 GENERAL INFORMATION OF THE GROUP

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 in preparation for listing the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. 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 equipment and coating materials, provision of coating services, oilfield services, offshore engineering services and offshore design services.

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

The condensed consolidated interim financial information was presented in Renminbi thousand (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 21 August 2015.

This condensed consolidated interim financial information has not been audited.

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2015 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

## 3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

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

(a) Amended standards adopted by the Group:

The following amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2015:

- Amendment to HKAS 19 regarding defined benefit plans. This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 3 ACCOUNTING POLICIES (continued)

**(a)** Amended standards adopted by the Group: **(continued)**

Apart from the above, the annual improvements project 2012 and 2013, include the following changes from the 2010-2012 reporting cycle and 2011-2013 reporting cycle, are effective for annual periods beginning on or after 1 July 2014. The Group has applied these amendments and there have been no significant impacts on the unaudited condensed consolidated interim financial information as a result.

- Amendment to HKFRS 2, "Share-based payment". The amendment clarifies the definition of a "vesting condition" and separately defines "performance condition" and "service condition".

- Amendment to HKFRS 3, "Business combinations" and consequential amendments to HKFRS9 "Financial instruments", HKAS37 "Provisions, contingent liabilities and contingent assets", and HKAS39 "Financial instruments – Recognition and measurement". The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in HKAS 32, "Financial instruments: Presentation". All non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

- Amendment to HKFRS 8, "Operating segments". The standard is amended to require disclosure of the judgements made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported.

- Amendments to HKAS 16, "Property, plant and equipment" and HKAS38, "Intangible assets". These amendments clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

- Amendments to HKAS 24, "Related Party Disclosures". The reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

- Amendments to HKFRS 3, "Business combinations". The amendment clarifies that HKFRS 3 does not apply to the accounting for the formation of any joint arrangement under HKFRS 11 in the financial statements of the joint arrangement.

- Amendments to HKFRS 13, "Fair value measurement'". The amendment clarifies that the portfolio exception in HKFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of HKAS 39 or HKFRS 9.

- Amendments to HKAS 40, "Investment property". Preparers also need to refer to the guidance in HKFRS 3 to determine whether the acquisition of an investment property is a business combination.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 3 ACCOUNTING POLICIES (continued)

(b) New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning on 1 January 2015 and have not been early adopted by the Group:

- HKFRS 14 "Regulatory Deferral Accounts", effective for the accounting period beginning on or after 1 January 2016.

- Amendment to HKFRS 11 on 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 on clarification of acceptable methods of depreciation and amortisation, effective for the accounting period beginning on or after 1 January 2016.

- Amendments to HKAS 16 and HKAS 41, "Agriculture: bearer plants", 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.

- 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.

- Annual improvements 2014, 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 2017.

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

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2014.

## 5 FINANCIAL RISK MANAGEMENT

### 5.1 Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

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

### 5.2 Liquidity risk

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

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

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **As at 30 June 2015** | | | | | |
| Borrowings and interest payable | 1,252,330 | 999,841 | 282,780 | 93 | 2,535,044 |
| Trade and other payables (excluding advance from customers, interest payable, staff salaries and welfare payables and other tax liabilities) | 993,097 | – | – | – | 993,097 |
| Derivative financial instruments | 2,833 | 589 | – | – | 3,422 |
| | 2,248,260 | 1,000,430 | 282,780 | 93 | 3,531,563 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 5 FINANCIAL RISK MANAGEMENT (continued)

### 5.2 Liquidity risk (continued)

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **As at 31 December 2014** | | | | | |
| Borrowings and interest payable | 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 |

### 5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2015 and 31 December 2014.

| **As at 30 June 2015** | **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 | **–** | **1,642** | **–** | **1,642** |
| Derivative financial instruments – current | | | | |
| Interest rate swaps | **–** | **20** | **–** | **20** |
| | **–** | **1,662** | **–** | **1,662** |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 5 FINANCIAL RISK MANAGEMENT (continued)

### 5.3 Fair value estimation (continued)

| **As at 31 December 2014** | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>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 |

During the six months ended 30 June 2015, there were no transfers among levels of the fair value hierarchy (six months ended 30 June 2014: Nil).

During the six months ended 30 June 2015, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities (six months ended 30 June 2014: Nil).

### 5.4 Financial instruments in level 2

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

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

Specific valuation techniques used to value financial instruments in level 2 include:

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

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

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

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

During the six months ended 30 June 2015, there were no reclassifications of financial assets (six months ended 30 June 2014: Nil).

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 6 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

### (a) Revenue

The revenue of the Group for the six months ended 30 June 2015 and 2014 are set out as follows:

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Oilfield equipment manufacturing and services | **339,071** | 589,276 |
| Line pipe technology and services | **106,465** | 119,815 |
| Oilfield services | **443,395** | 472,519 |
| Offshore engineering services | **411,543** | – |
| | **1,300,474** | 1,181,610 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 6 SEGMENT INFORMATION (continued)

### (b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2015 is as follows:

| Business segment | Six months ended 30 June 2015 (Unaudited) Oilfield equipment manufacturing and services RMB'000 | Line pipe technology and services RMB'000 | Oilfield services RMB'000 | Offshore engineering services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Segment revenue | 383,291 | 191,143 | 443,395 | 411,543 | 1,429,372 |
| Inter-segment sales | (44,220) | (84,678) | – | – | (128,898) |
| Revenue from external customers | 339,071 | 106,465 | 443,395 | 411,543 | 1,300,474 |
| **Results** | | | | | |
| Segment gross profit | 137,308 | 29,724 | 158,544 | 104,329 | 429,905 |
| Segment profit | (4,782) | (1,461) | 93,649 | 98,063 | 185,469 |
| Finance income | | | | | 5,570 |
| Finance costs | | | | | (52,542) |
| Share of losses of investments accounted for using equity method | | | | | (452) |
| Profit before income tax | | | | | 138,045 |
| **Other information** | | | | | |
| Depreciation of property, plant and equipment | 32,303 | 6,282 | 42,517 | 13,869 | 94,971 |
| Amortization of lease prepayments | 616 | 452 | – | – | 1,068 |
| Amortization of intangible assets | 347 | 474 | 11 | – | 832 |
| Capital expenditure | 13,082 | 29,820 | 92,212 | 60,058 | 195,172 |

| Business segment | As at 30 June 2015 (Unaudited) Oilfield equipment manufacturing and services RMB'000 | Line pipe technology and services RMB'000 | Oilfield services RMB'000 | Offshore engineering services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Segment assets | 2,814,877 | 532,692 | 1,875,178 | 1,477,080 | 6,699,827 |
| Investments accounted for using equity method | | | | | 56,208 |
| Total assets | | | | | 6,756,035 |
| Total liabilities | 2,831,459 | 201,842 | 325,244 | 221,643 | 3,580,188 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 6 SEGMENT INFORMATION (continued)

### (b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2014 is as follows:

| | Six months ended 30 June 2014 (Unaudited) | | | | |
|---|---|---|---|---|---|
| **Business segment** | Oilfield equipment manufacturing and services RMB'000 | Line pipe technology and services RMB'000 | Oilfield services RMB'000 | Offshore engineering services RMB'000 | Total RMB'000 |
| **Revenue** | | | | | |
| Segment revenue | 604,769 | 155,892 | 472,519 | – | 1,233,180 |
| Inter-segment sales | (15,493) | (36,077) | – | – | (51,570) |
| Revenue from external customers | 589,276 | 119,815 | 472,519 | – | 1,181,610 |
| **Results** | | | | | |
| Segment gross profit | 239,197 | 43,252 | 165,565 | – | 448,014 |
| Segment profit | 109,409 | 22,198 | 112,866 | (6,041) | 238,432 |
| Finance income | | | | | 1,234 |
| Finance costs | | | | | (50,715) |
| Share of profit of investments accounted for using equity method | | | | | 2,335 |
| Profit before income tax | | | | | 191,286 |
| **Other information** | | | | | |
| Depreciation of property, plant and equipment | 30,430 | 5,677 | 45,457 | – | 81,564 |
| Amortization of lease prepayments | 592 | 452 | – | – | 1,044 |
| Amortization of intangible assets | 171 | 114 | – | – | 285 |
| Capital expenditure | 82,209 | 35,411 | 26,855 | 251,626 | 396,101 |

| | As at 30 June 2014 (Unaudited) | | | | |
|---|---|---|---|---|---|
| **Business segment** | Oilfield equipment manufacturing and services RMB'000 | Line pipe technology and services RMB'000 | Oilfield services RMB'000 | Offshore engineering services RMB'000 | Total RMB'000 |
| Segment assets | 3,273,641 | 569,511 | 1,470,830 | 389,742 | 5,703,724 |
| Investments accounted for using equity method | | | | | 71,758 |
| Total assets | | | | | 5,775,482 |
| Total liabilities | 2,512,805 | 186,214 | 128,794 | – | 2,827,813 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 6 SEGMENT INFORMATION (continued)

### (c) Geographical segments

Although the Group's four segments are managed on a worldwide basis, they operate in six principal geographical areas of the world. In the PRC, the Group produces and sells a broad range of drill pipes and related products, and provides coating materials and services, as well as offshore engineering services. In Russia, Central Asia, East Europe, Middle East and North and South America, the Group sells drill pipe 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:

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| The PRC | **700,176** | 419,321 |
| North and South America | **330,373** | 416,407 |
| Africa | **94,847** | 108,493 |
| Russia, Central Asia and East Europe | **81,454** | 110,168 |
| South Asia | **53,438** | 56,041 |
| Middle East | **33,828** | 71,133 |
| Others | **6,358** | 47 |
| | **1,300,474** | 1,181,610 |

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

| | (Unaudited) | (Audited) |
|---|---|---|
| | Carrying amount of segment assets | |
| | **30 June 2015** | 31 December 2014 |
| | **RMB'000** | RMB'000 |
| The PRC | **2,108,772** | 2,055,470 |
| North and South America | **483,997** | 479,842 |
| Africa | **215,515** | 217,704 |
| South Asia | **158,569** | 123,552 |
| Middle East | **124,087** | 127,106 |
| Russia, Central Asia and East Europe | **101,125** | 104,903 |
| | **3,192,065** | 3,108,577 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 6 SEGMENT INFORMATION (continued)

### (c) Geographical segments (continued)

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 area in which the assets are located:

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| The PRC | **116,878** | 387,047 |
| Africa | **56,661** | 1,767 |
| North and South America | **21,216** | 140,761 |
| Middle East | **285** | 1,105 |
| Russia, Central Asia and East Europe | **132** | 506 |
| South Asia | **–** | 264 |
| | **195,172** | 531,450 |

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

| | | (Unaudited) | |
|---|---|---|---|
| | Property, plant and equipment RMB'000 | Lease prepayments RMB'000 | Intangible assets RMB'000 |
| **At 1 January 2014** | | | |
| Cost | 2,062,396 | 105,680 | 78,135 |
| Accumulated depreciation | (448,160) | (10,724) | (3,175) |
| Impairment provision | – | – | (2,097) |
| Net book amount | 1,614,236 | 94,956 | 72,863 |
| **Six months ended 30 June 2014** | | | |
| Opening net book amount | 1,614,236 | 94,956 | 72,863 |
| Additions | 453,679 | – | 3,391 |
| Business combination *(Note 19)* | 33,730 | – | 40,650 |
| Disposals | (1,961) | – | – |
| Depreciation | (81,564) | (1,044) | (285) |
| Exchange differences | 4,133 | – | 445 |
| Closing net book amount | 2,022,253 | 93,912 | 117,064 |
| **At 30 June 2014** | | | |
| Cost | 2,542,322 | 105,680 | 122,621 |
| Accumulated depreciation | (520,069) | (11,768) | (3,460) |
| Impairment provision | – | – | (2,097) |
| Net book amount | 2,022,253 | 93,912 | 117,064 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

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

| | (Unaudited) | | |
|---|---|---|---|
| | Property, plant and equipment RMB'000 | Lease prepayments RMB'000 | Intangible assets RMB'000 |
| **At 1 January 2015** | | | |
| Cost | 3,449,340 | 105,680 | 165,345 |
| Accumulated depreciation | (592,961) | (12,859) | (3,871) |
| Impairment provision | – | – | (2,097) |
| Net book amount | 2,856,379 | 92,821 | 159,377 |
| **Six months ended 30 June 2015** | | | |
| Opening net book amount | 2,856,379 | 92,821 | 159,377 |
| Additions | 194,522 | – | 650 |
| Disposals | (643) | – | – |
| Depreciation | (94,971) | (1,068) | (832) |
| Exchange differences | (14,161) | – | (9) |
| Closing net book amount | 2,941,126 | 91,753 | 159,186 |
| **At 30 June 2015** | | | |
| Cost | 3,625,861 | 105,680 | 165,989 |
| Accumulated depreciation | (684,735) | (13,927) | (4,706) |
| Impairment provision | – | – | (2,097) |
| Net book amount | 2,941,126 | 91,753 | 159,186 |

On 31 March 2015, the pipe-lay barge ("**vessel**"), amounting to RMB1,121,924,000 which was under construction in 2014, became ready for offshore engineering services. The vessel is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

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

During the six months ended 30 June 2015, interest capitalized in assets under construction amounted to RMB12,971,000 (six months ended 30 June 2014: RMB7,155,000). The capitalised rate of borrowing was 4.89% (six months ended 30 June 2014:4.22%).

## 8 OTHER LONG-TERM ASSETS

| | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| Long-term prepaid expenses | 1,385 | 799 |

## 9 TRADE AND OTHER RECEIVABLES

| | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| Bills receivable | 85,132 | 70,397 |
| Trade receivables *(a)* | | |
| – Due from third parties | 1,610,570 | 1,492,739 |
| – Due from related parties *(Note 20(c))* | 39,619 | 68,052 |
| Trade receivables – gross | 1,650,189 | 1,560,791 |
| Less: Provision for impairment of receivables | (36,276) | (25,793) |
| Trade receivables – net | 1,613,913 | 1,534,998 |
| Dividends receivable | 1,550 | 1,550 |
| Other receivables | 184,116 | 166,632 |
| Prepayments | 122,752 | 105,589 |
| | 2,007,463 | 1,879,166 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 9 TRADE AND OTHER RECEIVABLES (continued)

(a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables, before provision for impairment, as at 30 June 2015 and 31 December 2014 was as follows:

| | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| Trade receivables, gross | | |
| – Within 90 days | **772,263** | 1,012,791 |
| – Over 90 days and within 180 days | **243,725** | 187,679 |
| – Over 180 days and within 360 days | **417,699** | 129,314 |
| – Over 360 days and within 720 days | **138,335** | 168,441 |
| – Over 720 days | **78,167** | 62,566 |
| | **1,650,189** | 1,560,791 |

## 10 ORDINARY SHARES

| | Note | (Unaudited) Number of ordinary shares | Nominal value of ordinary shares (In HK$) | Equivalent nominal value of ordinary shares (In RMB) |
|---|---|---|---|---|
| **Opening balance as at 1 January 2014** | | 1,695,441,800 | 169,544,180 | 141,896,644 |
| Issue of shares upon exercise of options | *(a)* | 745,600 | 74,560 | 58,412 |
| **As at 30 June 2014** | | 1,696,187,400 | 169,618,740 | 141,955,056 |
| **Opening balance 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 30 June 2015** | | 1,696,438,600 | 169,643,860 | 141,975,506 |

(a) During the six months ended 30 June 2015, a total of 48,000 ordinary shares (six months ended 30 June 2014: 745,600 ordinary shares) (Note 11(a)(i)) at par value of HK$0.1 per share were issued for cash at the exercise price of HK$2.6 per share as a result of the exercise of share options.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 11 OTHER RESERVES

| | **(Unaudited) 30 June 2015 RMB'000** | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| Statutory reserve | **96,690** | 96,690 |
| Merger reserve | **(141,929)** | (141,929) |
| Share options reserve *(a)* | **37,415** | 33,159 |
| Capital redemption reserve | **702** | 702 |
| Share premium *(a)* | **1,172,248** | 1,172,118 |
| Capital reserve | **(43,553)** | (43,553) |
| | **1,121,573** | 1,117,187 |

### (a) Share options reserve

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

At the annual general meeting of the shareholders held 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% of the then total outstanding shares of the Company. The purpose of the 2013 Share Option Scheme is to provide incentive or reward to directors and employees of the Group for their contribution to the Group. On 5 February 2014, options for a total of 19,980,000 ordinary shares of the Company under 2013 Share Option Scheme were granted to certain employees of the Group.

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 11 OTHER RESERVES (continued)

### (a) Share options reserve (continued)

#### *(i) Pre-IPO share option plan*

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

| | Exercise price (per share in HK$) | Outstanding shares (unaudited) Six months ended 30 June | |
|---|---|---|---|
| | | **2015** | 2014 |
| Beginning of the period | 2.60 | **31,594,300** | 33,430,700 |
| Forfeited | 2.60 | **(770,400)** | (887,600) |
| Exercised *(Note 10(a))* | 2.60 | **(48,000)** | (745,600) |
| End of the period | 2.60 | **30,775,900** | 31,797,500 |

The share options outstanding (expiry date: 21 April 2021) as at 30 June 2015 have the following vesting dates and exercise prices:

| Vesting date | Exercise price (per share in HK$) | Outstanding shares (unaudited) Six months ended 30 June | |
|---|---|---|---|
| | | **2015** | 2014 |
| 21 April 2012 | 2.60 | **2,224,500** | 2,224,200 |
| 21 April 2013 | 2.60 | **6,713,000** | 7,089,075 |
| 21 April 2014 | 2.60 | **7,265,600** | 7,473,675 |
| 21 April 2015 | 2.60 | **7,278,400** | 7,505,275 |
| 21 April 2016 | 2.60 | **7,294,400** | 7,505,275 |
| | 2.60 | **30,775,900** | 31,797,500 |

Out of the 30,775,900 outstanding options (30 June 2014: 31,797,500 options), 23,481,500 options (30 June 2014: 16,786,950 options) were exercisable. Options exercised during the six months ended 30 June 2015 resulted in 48,000 shares (six months ended 30 June 2014: 745,600 shares) being issued at the exercise price of HK$2.6 per share. The related weighted average share price at the time of exercise was HK$2.94 per share (six months ended 30 June 2014: HK$5.03 per share).

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 11 OTHER RESERVES (continued)

### (a) Share options reserve (continued)

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

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

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

The significant inputs into the model were as follows,

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

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2015 for share options granted under Pre-IPO share option plan amounted to RMB769,000 (six months ended 30 June 2014: RMB1,932,000), with a corresponding amount credited in share options reserve.

*(ii) 2013 Share Option Scheme*

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

| | Exercise price (per share in HK$) | Outstanding shares (unaudited) Six months ended 30 June 2015 | 2014 |
|---|---|---|---|
| Beginning of the period | 5.93 | **19,563,400** | – |
| Granted | 5.93 | **–** | 19,980,000 |
| Forfeited | 5.93 | **(835,200)** | (245,100) |
| End of the period | 5.93 | **18,728,200** | 19,734,900 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 11 OTHER RESERVES (continued)

### (a) Share options reserve (continued)

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

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2015 have the following vesting dates and exercise prices:

| Vesting date | Exercise price (per share in HK$) | Outstanding shares (unaudited) Six months ended 30 June 2015 | 2014 |
|---|---|---|---|
| 5 February 2015 | 5.93 | **3,745,640** | 3,946,980 |
| 5 February 2016 | 5.93 | **3,745,640** | 3,946,980 |
| 5 February 2017 | 5.93 | **3,745,640** | 3,946,980 |
| 5 February 2018 | 5.93 | **3,745,640** | 3,946,980 |
| 5 February 2019 | 5.93 | **3,745,640** | 3,946,980 |
| | 5.93 | **18,728,200** | 19,734,900 |

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

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2015 for share options granted under 2013 Share Option Scheme amounted to RMB3,522,000 (six months ended 30 June 2014: RMB4,284,000), with a corresponding amount credited in share options reserve.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 12 BORROWINGS

| | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| **Non-current** | | |
| Bank borrowings – unsecured | **1,882,168** | 1,891,464 |
| Less: Current portion of non-current borrowings *(b)* | **(635,152)** | (261,503) |
| | **1,247,016** | 1,629,961 |
| **Current** | | |
| Bank borrowings – secured *(a)* | **49,020** | 22,028 |
| Bank borrowings – unsecured *(b)* | **478,880** | 549,081 |
| Current portion of non-current borrowing *(b)* | **635,152** | 261,503 |
| | **1,163,052** | 832,612 |
| | **2,410,068** | 2,462,573 |

Movement in borrowings is analysed as follows:

| | (Unaudited) Six months ended 30 June 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Beginning of the period | **2,462,573** | 1,160,680 |
| Additions of borrowings – net | **235,044** | 1,200,369 |
| Repayments of borrowings | **(295,517)** | (280,334) |
| Amortization using the effective interest method | **8,370** | 8,705 |
| Exchange difference | **(402)** | 10,479 |
| Ending of the period | **2,410,068** | 2,099,899 |

### (a) Secured bank borrowings

The bank borrowings of RMB49,020,000 (31 December 2014: RMB22,028,000) were secured by certain bank deposits of the Group, with a carrying amount of RMB32,544,000, as at 30 June 2015 (31 December 2014: RMB32,544,000).

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 12 BORROWINGS (continued)

### (b) Unsecured bank borrowings

In September 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 23 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD147,250,000 facility and a HK$408,812,500 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As of 30 June 2015, 35% of the loan principal will mature in one year.

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 HK$201,500,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As of 30 June 2015, 25% of the loan principal will mature in one year.

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 USD139,777,700 facility and a HK$380,610,825 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group.

## 13 TRADE AND OTHER PAYABLES

| | **(Unaudited) 30 June 2015 RMB'000** | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| Bills payable | **91,345** | 128,776 |
| Trade payables: | | |
| – Due to third parties | **712,656** | 560,352 |
| Other payables: | | |
| – Due to related parties *(Note 20(c))* | **48,288** | 48,624 |
| – Due to third parties | **60,157** | 86,494 |
| Advance from customers | **48,372** | 25,533 |
| Staff salaries and welfare payables | **31,477** | 37,122 |
| Interest payables | **866** | 1,096 |
| Accrued taxes other than income tax | **29,631** | 42,145 |
| Dividends payable | **68,388** | 1,463 |
| Other liabilities | **12,263** | 10,845 |
| | **1,103,443** | 942,450 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 13 TRADE AND OTHER PAYABLES (continued)

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

| | **(Unaudited) 30 June 2015 RMB'000** | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| Trade payables, gross | | |
| – Within 90 days | **577,077** | 485,303 |
| – Over 90 days and within 180 days | **42,123** | 52,707 |
| – Over 180 days and within 360 days | **93,415** | 20,440 |
| – Over 360 days and within 720 days | **41** | 463 |
| – Over 720 days | **–** | 1,439 |
| | **712,656** | 560,352 |

## 14 OTHER (LOSSES)/GAIN – NET

| | **(Unaudited) Six months ended 30 June** | |
|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 |
| Exchange (losses)/gain – net | **(17,666)** | 13,757 |
| Government grants | **6,364** | 6,716 |
| Gain on disposal of property, plant and equipment – net | **938** | 2,347 |
| Others | **(2,590)** | 353 |
| | **(12,954)** | 23,173 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 15 FINANCE COSTS – NET

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Finance income: | | |
| – Interest income derived from bank deposits | **3,295** | 1,234 |
| – Fair value gains on derivative financial instruments | **1,980** | – |
| – Exchange gain | **295** | – |
| | **5,570** | 1,234 |
| Finance costs: | | |
| – Interest expense on bank borrowings | **(65,513)** | (50,434) |
| Less: interest capitalised | **12,971** | 7,155 |
| | **(52,542)** | (43,279) |
| – Exchange losses | **–** | (6,329) |
| – Fair value losses on derivative financial instruments | **–** | (1,107) |
| | **(52,542)** | (50,715) |
| Finance costs – net | **(46,972)** | (49,481) |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 16 INCOME TAX EXPENSE

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Current income tax | **34,144** | 43,053 |
| Deferred income tax | **(5,121)** | (41,093) |
| Income tax expense | **29,023** | 1,960 |

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 exempt from payment of Cayman Islands income tax.

Enterprises incorporated in British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the six months ended 30 June 2015 and 2014.

Enterprises incorporated in other places are subject to income tax rates of 15% to 34% prevailing in the places in which the Group operated for the six months ended 30 June 2015 (for the six months ended 30 June 2014: 15% to 34%).

The income tax provision of the Group in respect of its operations in the PRC 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 PRC is 25%.

Certain subsidiaries qualified for new/high-tech technology enterprises and enjoyed preferred income tax rate of 15% for three years.

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.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 16 INCOME TAX EXPENSE (continued)

Pursuant to Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries. 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" since 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. Accordingly, the related deferred income tax liability of RMB38,436,000 was reversed during the six months ended 30 June 2014 with a corresponding credit to the deferred income tax expenses in the consolidated income statement. Given the above, in 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.

As at 30 June 2015, the permanently reinvested unremitted earnings totalled RMB967,660,000 (31 December 2014: RMB973,760,000).

## 17 EARNINGS PER SHARE

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

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| Profit attributable to equity owners of the Company (RMB'000) | **108,759** | 179,318 |
| Weighted average number of ordinary shares in issue (thousands of shares) | **1,696,399** | 1,696,036 |
| Basic earnings per share (RMB per share) | **0.0641** | 0.1057 |

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 potential dilutive effect of the Company is caused by share options.

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

As at 30 June 2015, there were 30,775,900 share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2015, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 17 EARNINGS PER SHARE (continued)

As at 30 June 2015, there were 18,728,200 (30 June 2014: 19,734,900) share options outstanding related to 2013 Share Option Scheme. For the six months ended 30 June 2015 and the six months ended 30 June 2014, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

The calculation of the diluted earnings per share for the six months ended 30 June 2014 was shown as:

| | (Unaudited) Six months ended 30 June 2014 |
|---|---|
| **Earnings** | |
| Profit attributable to equity owners of the Company (RMB'000) | 179,318 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 1,696,036 |
| Adjustments for share options granted under the pre-IPO share option plan (thousands of shares) | 14,749 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands of shares) | 1,710,785 |
| Diluted earnings per share (RMB per share) | 0.1048 |

## 18 DIVIDENDS

The dividend in respect of 2014 of HK$0.0500 (equivalent to RMB0.0395) per share, amounting to a total dividend of HK$84,822,000 (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 six months ended 30 June 2015.

The dividend in respect of 2013 of HK$0.0770 (equivalent to RMB0.0613) per share, amounting to a total dividend of HK$130,601,000 (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 six months ended 30 June 2014.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 19 BUSINESS COMBINATION

The Group acquired a business relating to coating of the interior of pipes located in Texas, the United States of America (the "**US**") on 26 March 2014. As part of the business acquisition, the Company, through its wholly-owned subsidiary in the US, 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 RMB40,650,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the US Coating Business.

The following table summarises 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 7)* | 33,730 |
| Inventories | 867 |
| Trade and other payables | (17,918) |
| **Total identifiable net assets** | 16,679 |
| Goodwill *(Note 7)* | 40,650 |
| | 57,329 |

The revenue included in the condensed consolidated interim income statement since April 2014 contributed by the US Coating Business was RMB21,107,000. US Coating Business also contributed profit of RMB5,817,000 over the same period.

Had the US Coating Business been consolidated from 1 January 2014, the condensed consolidated interim income statement would show pro-forma revenue of RMB1,192,591,000 and profit attributable to the equity owners of the Company of RMB180,831,000.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 20 RELATED PARTY TRANSACTIONS

### (a) Name and relationship with related parties

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2015 and 2014, and balances arising from related party transactions as at 30 June 2015 and 31 December 2014.

*(i) Controlling Shareholder*

Mr. Zhang Jun

*(ii) Close family member of the Controlling Shareholder*

Ms. Zhang Shuman

*(iii) Controlled by the Controlling Shareholder*

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

*(iv) Associates of the Group*

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

*(v) Jointly controlled entities of the Group*

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

* The Group acquired additional equity interest in Hilong Temerso Co., Ltd. and obtained control over it in 2014. The related party transactions with Hilong Temerso Co., Ltd. referred to the transactions before the acquisition.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 20 RELATED PARTY TRANSACTIONS (continued)

### (b) Transactions with related parties

Save as disclosed elsewhere in this report, during the six months ended 30 June 2015 and 2014, the Group had the following significant transactions with related parties:

| | (Unaudited) Six months ended 30 June | |
|---|---|---|
| | **2015 RMB'000** | 2014 RMB'000 |
| **Sales of goods:** | | |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **29,576** | 20,331 |
| Anshan Hidlong Anti-Corrosion Engineering Co., Ltd. | **1,106** | 5,629 |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **–** | 6,311 |
| Hilong Temerso Co., Ltd. | **–** | 3,289 |
| | **30,682** | 35,560 |
| **Purchase of materials:** | | |
| Jiangyan Hilong Wire Welding Co., Ltd. | **–** | 530 |
| **Purchase of property, plant and equipment:** | | |
| Hilong Oil Pipe Co., Ltd. | **–** | 58,026 |
| **Rental expenses:** | | |
| Beijing Huashi Hilong Oil Investments Co., Ltd. | **3,221** | 2,786 |
| Hilong Oil Pipe Co., Ltd. | **–** | 2,102 |
| | **3,221** | 4,888 |

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 20 RELATED PARTY TRANSACTIONS (continued)

### (c) Balances with related parties

| | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| **Trade receivables due from:** | | |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **38,378** | 38,485 |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **1,241** | 21,424 |
| Anshan Hidlong Anti-Corrosion Engineering Co., Ltd. | **–** | 8,143 |
| | **39,619** | 68,052 |
| **Dividends receivable due from:** | | |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **1,550** | 1,550 |
| **Other receivables due from:** | | |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **45,233** | 30,880 |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **23,646** | 40,268 |
| Anshan Hidlong Anti-Corrosion Engineering Co., Ltd. | **12,692** | 15,366 |
| Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. | **–** | 1,849 |
| | **81,571** | 88,363 |
| **Other payables due to:** | | |
| Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. | **45,671** | 47,686 |
| Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. | **1,675** | – |
| Mr. Zhang Jun | **938** | 938 |
| Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. | **4** | – |
| | **48,288** | 48,624 |
| **Advance from:** | | |
| Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. | **80** | – |

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand except for the borrowings from related party.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 21 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### (a) Acquisition of additional interest in Nantong Hilong Steel Pipe Co., Ltd.

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 Steel Pipe Co., Ltd.. The Group waived a receivables of RMB10,588,000 due from the non-controlling interests with a carrying amount as a consideration. The carrying amount of the non-controlling interests in Nantong Hilong Steel Pipe Co., Ltd. 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 Steel Pipe Co., Ltd. on the equity attributable to owners of the Company during the period 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) |

### (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 during the period 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) |

### (c) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company

| | RMB'000 |
|---|---|
| Changes in equity attributable to the shareholders of the Company arising from: | |
| – Acquisition of additional interests in Nantong Hilong Steel Pipe Co., Ltd. | (3,628) |
| – Acquisition of additional interests in Hilong Oil Service and Engineering Co., Ltd. | (889) |
| | (4,517) |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*FOR THE SIX MONTHS ENDED 30 JUNE 2015*

## 22 COMMITMENTS

### (a) Capital commitments

| | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| Property, plant and equipment | **24,055** | 15,557 |

### (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:

| | (Unaudited) 30 June 2015 RMB'000 | (Audited) 31 December 2014 RMB'000 |
|---|---|---|
| No later than 1 year | **8,448** | 7,371 |
| Later than 1 year and no later than 3 year | **5,307** | 7,781 |
| Later than 3 years | **9,323** | 9,850 |
| | **23,078** | 25,002 |

# OTHER INFORMATION

## CHANGES IN DIRECTORATE AND DIRECTOR'S INFORMATION

There were changes in directorate, and also change in information of a director which is required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") since the date of the 2014 Annual Report of the Company as follows:

1 Mr. Ji Min ceased to hold the office of an executive director and the chief financial officer of the Company with effect from 27 May 2015;

2 Mr. Lee Siang Chin, independent non-executive director, ceased to be a director of the Social Security Organisation of Malaysia and a member of its investment panel with effect from 1 August 2015; and

3 Mr. Yang Qingli has been appointed as a non-executive director of the Company with effect from 21 August 2015.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2015, the interests and short positions of the directors and the 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 of Hong Kong Limited 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 of Mr. Zhang's trust/ Interest of controlled corporation | 901,723,000[1] | |
| | Founder of three Mr. Zhang's family trusts/Interest of controlled corporation | 112,300,800[2] | |
| | Beneficial owner | 760,000 | |
| | | 1,014,783,800 | 59.82% |
| Ms. Zhang Shuman | Interest of controlled corporation | 24,300,000[3] | |
| | Beneficial owner | 492,000 | |
| | | 24,792,000 | 1.46% |
| Mr. Yuan Pengbin | Beneficial owner | 1,151,600 | 0.07% |
| Mr. Wang Tao (汪濤) | Beneficial owner | 1,200,000 | 0.07% |

# OTHER INFORMATION

*Notes:*

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

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

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

*(c) Long positions in the shares of 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 of Mr. Zhang's trust | Hilong Group Limited | 100 | 100% |

# OTHER INFORMATION

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

As at 30 June 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 positions in the shares and underlying shares of the Company*

| Name of substantial shareholder | Capacity | Number of shares/ underlying shares interested | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Hilong Group Limited | Beneficial owner | 901,723,000(1) | 53.15% |
| SCTS Capital Pte Ltd. | Nominee | 1,033,557,000(1)(2) | 60.93% |
| Standard Chartered Trust (Singapore) Limited | Trustee | 1,033,557,000(1)(2) | 60.93% |
| Ms. Gao Xia | Interest of spouse | 1,015,383,800(3) | 59.85% |
| The Capital Group Companies, Inc. | Interest of controlled corporation | 102,273,000(4) | 6.03% |
| Wellington Management Group LLP | Interest of controlled corporation | 101,991,000(5) | 6.01% |

*Notes:*

(1) These 901,723,000 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 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 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) 27,398,000 shares, 19,993,000 shares, 2,173,000 shares and 52,709,000 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) 95,245,000 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"). 6,746,000 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.

# OTHER INFORMATION

## PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a pre-IPO share option scheme (the "**Pre-IPO Scheme**") on 28 February 2011. The Pre-IPO Scheme commenced on 1 January 2011. The grantees to whom an option has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date on which the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing Date**") and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period. During 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO Scheme, have been granted.

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

| Category/name of grantees | Number of share options | | | | | Exercise price | Weighted average closing price immediately before exercise | Date of grant | Exercise period |
|---|---|---|---|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015 | Granted during the Interim Period | Exercised during the Interim Period | Cancelled/ lapsed during the Interim Period | Outstanding as at 30 June 2015 | HK$ | HK$ | | |
| **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) | (130,400) | 25,275,900 | 2.60 | 2.92 | 1 January 2011 | 21 April 2012– 31 December 2020 |
| Total | 31,594,300 | – | (48,000) | (770,400) | 30,775,900 | | | | |

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

# OTHER INFORMATION

## POST-IPO SHARE OPTION SCHEME

The Company adopted another share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. Further details of the Post-IPO Scheme are set out in note 11 to the condensed consolidated interim financial information and the circular of the Company dated 10 April 2013. 20% of the share options granted under the Post-IPO Scheme will be vested on each anniversary of the date of grant until 5 February 2019. Details of movements in the options granted and outstanding under the Post-IPO Scheme during the Interim Period are as follows:

| | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category/ name of grantee | Outstanding as at 1 January 2015 | Granted during the Interim Period | Exercised during the Interim Period | Cancelled/ lapsed during the Interim Period | Outstanding as at 30 June 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 | – | – | (835,200) | 18,728,200 | 5.93 | 5.72 | – | 5 February 2014 | 5 February 2015 – 4 February 2024 |

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

On 16 September 2013, the Company as borrower entered into a 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 arrangers and bookrunners, and other lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$147,250,000 and 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 facility agreement. The facility agreement contains specific performance obligations imposed on Mr. Zhang Jun, a controlling shareholder of the Company, to the effect that Mr. Zhang Jun shall continue, during the term of the facility agreement, (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 chairman of the Board. A breach of any of such obligations will constitute an event of default under the facility agreement which enable the lenders to cancel all or any part of their respective commitments under the facility immediately and the outstanding amount 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%.

On 28 April 2014, the Company as borrower entered into another 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 other lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$74,000,000 and 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 facility agreement. The 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 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 facility agreement which enable the lenders to cancel all or any part of their respective commitments under the facility immediately and the outstanding amount together with interest accrued thereon may become immediately due and payable.

# OTHER INFORMATION

On 30 July 2015, the Company as borrower entered into a 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 other lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$139,777,700 and 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 facility agreement. The 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 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 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.

## CORPORATE GOVERNANCE

### Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules throughout the Interim Period, except that in respect of code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer of the Company are not separate and both are 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 of 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.

### Model Code for Securities Transactions by Directors of Listed Issuers

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

## REVIEW OF INTERIM REPORT

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

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

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

## APPRECIATION

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

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

21 August 2015