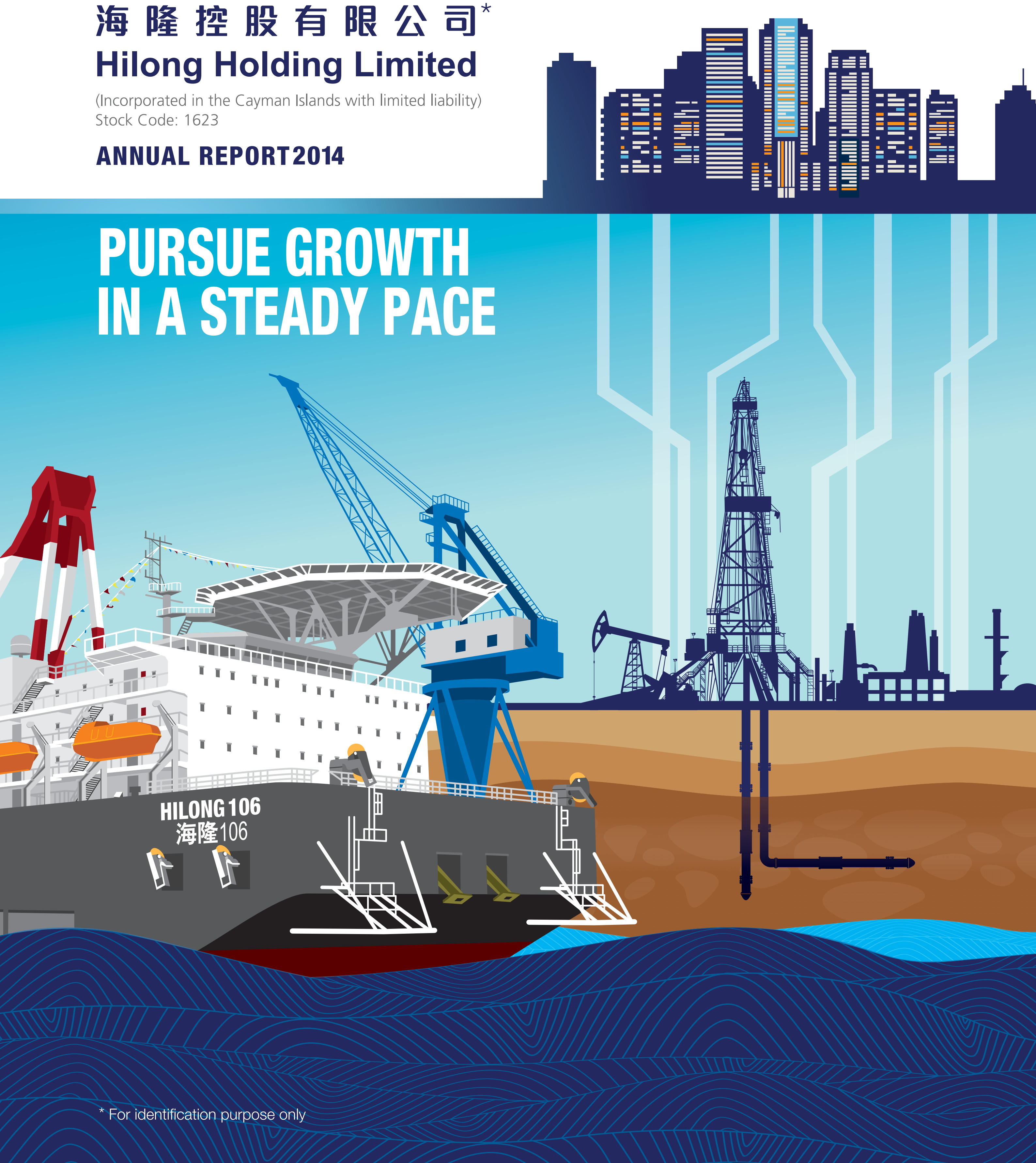
海隆控股有限公司*

Hilong Holding Limited

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

ANNUAL REPORT 2014

PURSUE GROWTH IN A STEADY PACE



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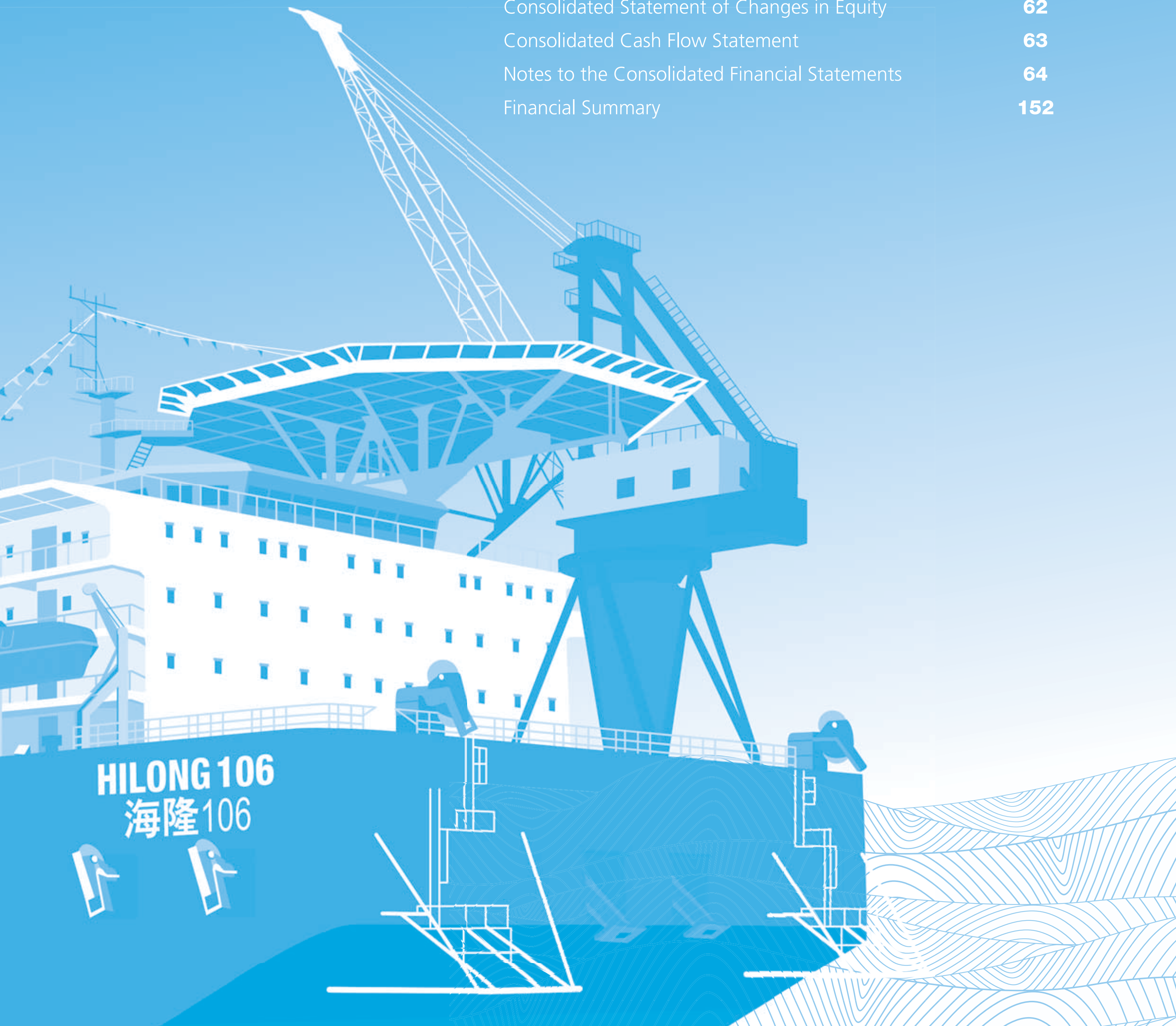

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Hilong Holding Limited ("Hilong", "we" or the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014 to our shareholders.

RESULTS

In 2014, the Group maintained steady operation and achieved satisfactory operational results. The total revenue for the year increased by 5% to RMB2,576 million as compared to that of 2013. During the year, the Company restructured its existing business segments. Comprising the drill pipe and related products business and the OCTG coating services business, the newly established oilfield equipment manufacturing and services segment recorded a total revenue of RMB1,270 million, representing a slight growth compared to 2013. The line pipe technology and services segment is composed of coating materials, line pipe coating services, Corrosion Resistant Alloy ("CRA") lined pipe, Concrete Weighted Coating ("CWC") services and line pipe inspection services after the business segments reorganization. As compared to 2013, the total revenue of this segment decreased to RMB272 million in 2014. The oilfield services segment continued to lead the Company's overall growth and achieved a total revenue of RMB1,032 million, indicating a significant growth of 18% as compared with 2013. While maintaining steady operation of existing business, the Company also actively developed new business and explored new markets, and in particular, the Company established the offshore engineering services segment. The net profit attributable to equity owners of the Company for 2014 increased by 15% to RMB398 million. The Non-GAAP net profit attributable to equity owners of the Company, which reflected the actual operational results, amounted to RMB413 million and remained in line with that of 2013.

YEAR UNDER REVIEW

Although faced with multiple challenges from both domestic and international markets in 2014, Hilong maintained stable operation while firmly implementing the established development strategy and achieved satisfactory results. The operation of the oilfield equipment manufacturing and services segment in 2014 remained relatively stable. In addition to maintaining a leading and stable market position in domestic market, Hilong also achieved a significant breakthrough in overseas sales for its drill pipe products and received recognition from more international customers. The development and promotion of its high-end non-API products also made new progress. In 2014, the Company further accelerated the capacity expansion for OCTG coating services in overseas markets and successfully acquired coating plants in the US and Russia, which significantly expanded the capacity while strengthening the competitiveness of the business in international markets. In spite of the challenges, the line pipe technology and services segment still made some achievements in 2014. Given the declined demand in domestic market, the Company explored the overseas markets for the traditional line pipe coating services business in a more active manner and achieved remarkable results. Although the newly developed CRA and CWC business were still at the early stage of operation, Hilong has already gained several orders from major domestic and international customers in 2014. The newly launched line pipe inspection service business successively won the bids from China National Petroleum Corporation ("CNPC") and CNOOC Limited ("CNOOC") and the services provided were highly recognized by the customers. The oilfield services segment maintained steady operation in 2014. Whilst the Company realized growth for the core drilling services, it also promoted the development of comprehensive services at the same time. The 3,000HP high temperature high pressure drilling rig that provided drilling services for Shell in Nigeria was put into operation in the first half of 2014, which represented Hilong's successful advance into the most high-end field for onshore drilling services and also reinforced Hilong's market position. The comprehensive services also recorded steady development, among which, the OCTG trading and related services realized notable growth in particular. As a newly established business segment in 2014, the offshore engineering services segment focuses on providing offshore engineering services at the initial stage with the operation of offshore pipe-laying derrick vessel, Hilong 106, as the starting point, complemented with offshore engineering design service. Hilong has already won two major EPCI[1] service contracts from CNOOC and will utilize Hilong 106 to build the offshore line pipes for CNOOC's Weizhou Phase II Project and East China Sea Project, respectively. In addition, Hilong also built an elite team for offshore engineering design service to provide strong technical support internally and provide independent technical consultation service externally.

[1] EPCI services include engineering, procurement, construction and installation.

PROSPECTS

In 2015, Hilong will still be confronted with complicated market environment but the year of 2015 will also be the first year in which Hilong will be expecting initial results after making adjustments to its business strategy. Hilong 106 will soon commence offshore pipe-laying work in the first half of 2015 and it is expected that this will inject continuous growth impetus to the Company in the new development stage. For the drill pipe business, Hilong will continue to make more efforts to improve the overseas sales while promoting the sales of non-API drill pipe and related services with high added value. The Company will seize the opportunity brought by the acquisition of overseas coating plants to further promote the development of OCTG coating services in international markets. The Company will also make more endeavors to explore the markets for the businesses under the line pipe technology and services segment, particularly the overseas markets. While maintaining stable development of traditional line pipe coating services business, the Company will devote more resources in promoting the fast development of CRA, CWC and line pipe inspection business which has been launched recently and strive to become an integrated line pipe service provider. Hilong will focus on building high-end brand positioning for the oilfield services segment and enhance its capability to provide integrated services in the meantime.

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

APPRECIATION

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

Zhang Jun
Chairman

Hong Kong, 20 March 2015

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

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

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

HEADQUARTER

No. 1825, Luodong Road
Baoshan Industrial Zone
Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

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

STOCK CODE

1623

WEBSITE AND CONTACT

www.hilonggroup.net
Tel: 852-2506-0885
Fax: 852-2506-0109

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2014		2013	
	RMB'000	**%**	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**917,596**	**35.6**	808,580	33.0
– Oil country tubular goods ("**OCTG**") coating services	**276,429**	**10.7**	263,738	10.8
– Drill pipe components	**29,954**	**1.2**	82,981	3.4
– Hardbanding	**16,167**	**0.6**	13,160	0.5
– Others	**30,259**	**1.2**	45,959	1.9
Subtotal	**1,270,405**	**49.3**	1,214,418	49.6
Line pipe technology and services				
– OCTG coating materials	**43,763**	**1.7**	33,092	1.3
– Oil and gas line pipe coating materials	**46,596**	**1.8**	79,927	3.3
– Oil and gas line pipe coating services	**84,701**	**3.3**	239,372	9.8
– Corrosion Resistant Alloy (CRA) lined pipe	**72,413**	**2.8**	12,960	0.5
– Concrete Weighted Coating (CWC) services	**10,995**	**0.4**	–	–
– Pipeline inspection services	**13,176**	**0.5**	–	–
Subtotal	**271,644**	**10.5**	365,351	14.9
Oilfield services	**1,032,239**	**40.1**	872,589	35.5
Offshore engineering services	**1,698**	**0.1**	–	–
Total revenue	**2,575,986**	**100.0**	2,452,358	100.0

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

	Year ended 31 December			
	2014		2013	
	RMB'000	**%**	RMB'000	%
The PRC	**896,953**	**34.9**	1,219,740	49.7
North and South America	**903,701**	**35.1**	604,049	24.6
Russia, Central Asia and East Europe	**285,460**	**11.1**	240,057	9.8
West Africa	**220,091**	**8.5**	219,947	9.0
Middle East	**152,194**	**5.9**	85,781	3.5
South Asia	**114,000**	**4.4**	61,243	2.5
Others	**3,587**	**0.1**	21,541	0.9
	2,575,986	**100.0**	2,452,358	100.0

Revenue increased by RMB123.6 million, or 5.0%, from RMB2,452.4 million in 2013 to RMB2,576.0 million in 2014. Such increase primarily reflected an increase in revenue from oilfield services segment and, to a lesser extent, from oilfield equipment manufacturing and services segment, partially offset by a decrease in revenue from line pipe technology and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB56.0 million, or 4.6%, from RMB1,214.4 million in 2013 to RMB1,270.4 million in 2014. Such increase primarily reflected an increase in revenue derived from sales of drill pipes, partially offset by a decrease in revenue derived from sales of drill pipe components.

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

	Year ended 31 December	
	2014	2013
Sales of drill pipes		
– International market		
– volume (tons)	**24,101**	13,665
– unit price (RMB/ton)	**23,745**	23,402
Subtotal (RMB'000)	**572,279**	319,777
– The PRC market		
– volume (tons)	**15,397**	20,997
– unit price (RMB/ton)	**22,427**	23,280
Subtotal (RMB'000)	**345,317**	488,803
Total (RMB'000)	**917,596**	808,580

Revenue from sales of drill pipes in the international market increased by RMB252.5 million, or 79.0%, from RMB319.8 million in 2013 to RMB572.3 million in 2014. The increase reflected a 76.4% increase in the volume of drill pipes sold from 13,665 tonnes in 2013 to 24,101 tonnes in 2014, while the average selling price remained stable. The increase in the sales volume primarily reflected the enhancement of Hilong's brand recognition in the international market, especially in the North and South America market.

Revenue from sales of drill pipes in the PRC market decreased by RMB143.5 million, or 29.4%, from RMB488.8 million in 2013 to RMB345.3 million in 2014. The decrease reflected a 26.7% decrease in volume of drill pipes sold in the PRC market from 20,997 tonnes in 2013 to 15,397 tonnes in 2014 and, to a lesser extent, a 3.7% decrease in average selling price sold in the PRC market from RMB23,280 per tonne in 2013 to RMB22,427 per tonne in 2014. The decrease in the sales volume primarily reflected less oil and gas exploration and production activities in 2014 in the PRC market. The decrease in average selling price primarily reflected the fact that steel prices decreased in 2014 compared to that in 2013.

Revenue from OCTG coating services remained stable, reflecting (i) revenue from OCTG coating services in the PRC market decreased due to less oil and gas exploration and production activities in 2014, offset by (ii) increase in revenue from OCTG coating services in the international market due to revenue contributed by our new plants in North America.

Revenue from sales of drill pipe components decreased by RMB53.0 million, from RMB83.0 million in 2013 to RMB30.0 million in 2014. The decrease primarily reflected the fact that the Group sold several batches of tool joints and pipes to certain customers in the international market in 2013, while we did not receive similar orders in 2014.

Line pipe technology and services. Revenue from the line pipe technology and services segment decreased by RMB93.8 million, or 25.6%, from RMB365.4 million in 2013 to RMB271.6 million in 2014. Such decrease primarily reflected a decrease in the revenue derived from oil and gas line pipe coating services and materials, partially offset by an increase in the revenue derived from CRA lined pipe.

The decrease in revenue from oil and gas line pipe coating services and materials primarily reflected lower demand resulting from delay in the pipe line constructions in the PRC since the second half of 2013.

The increase in revenue from CRA lined pipe reflected our continuous efforts in promoting newly developed line pipe coating services, and the built-up and enhancement of Hilong's brand recognition in this market.

Oilfield services. Revenue from the oilfield services segment increased by RMB159.6 million from RMB872.6 million in 2013 to RMB1,032.2 million in 2014. Such increase was attributable to (i) the increase in revenue from OCTG trading and related services provided to oilfield services clients, and (ii) higher oilfield services revenue earned as more drilling rigs were on-site in 2014 as compared to that in 2013.

Offshore engineering services. Newly established in 2014, the offshore engineering services segment focuses on providing offshore pipe laying and lifting and installation services, as well as providing offshore engineering design services. Revenue from the offshore engineering services segment in 2014 represented the revenue from certain offshore engineering design services.

Cost of Sales/Services

Cost of sales increased by RMB91.0 million, or 6.2%, from RMB1,464.4 million in 2013 to RMB1,555.4 million in 2014. Such increase primarily reflected an increase in cost of oilfield services segment and oilfield equipment manufacturing and services segment, partially offset by a decrease in cost of line pipe technology and services segment.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit increased by RMB32.6 million, or 3.3%, from RMB988.0 million in 2013 to RMB1,020.6 million in 2014. Gross margin remained stable in 2014, reflecting the decrease in gross margin from oilfield equipment manufacturing and services segment and oilfield services segment, offset by increase in gross margin from line pipe technology and services segment.

Gross margin of oilfield equipment manufacturing and services segment decreased from 47.0% in 2013 to 45.3% in 2014, primarily reflecting that certain OCTG coating plants were in their ramp up stage in 2014.

Gross margin of oilfield services segment decreased from 36.5% in 2013 to 34.6% in 2014, reflecting higher portion of revenue from OCTG trading and related services provided to oilfield services clients, which generally have lower gross margin than that of oilfield services.

Gross margin of line pipe technology and services segment increased from 27.1% in 2013 to 32.3% in 2014, reflecting (i) higher gross margin of oil and gas line pipe coating services as a result of engagement in complex and large-scale projects in 2014, and (ii) less portion of revenue derived from oil and gas line pipe materials, which generally have lower gross margin.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB32.9 million, or 31.0%, from RMB105.9 million in 2013 to RMB138.8 million in 2014, mainly attributable to our increasing efforts in developing and promoting in international markets for both oilfield equipment manufacturing and services segment and oilfield services segment.

Administrative Expenses

Administrative expenses increased by RMB51.9 million, or 18.5%, from RMB279.6 million in 2013 to RMB331.5 million in 2014. Such increase primarily reflected (i) an accretion of administrative expenses incurred in subsidiaries set-up or acquired by the Group since late 2013, including offshore engineering services segment and US coating business, (ii) an increase in staff costs and office expenses incurred in connection with the expansion of oilfield services business, and (iii) the Group provided RMB5.8 million specific provision for impairment of certain receivables in 2014.

Other Losses – net

The Group recognized net loss of RMB100.2 million in 2013 and RMB20.5 million in 2014. The net loss recognized in 2014 primarily reflected a net loss of RMB41.8 million in foreign exchange, partially offset by RMB16.7 million in government grants in relation to new and high-technology projects. The net loss recognized in 2013 primarily reflected (i) a loss of RMB74.0 million in changes in fair value of the embedded derivative of the convertible bonds, and (ii) a net loss of RMB41.5 million in foreign exchange, partially offset by RMB14.4 million in government grants in relation to new and high-technology projects.

Finance Costs – net

Finance costs – net increased by RMB14.2 million, or 22.7%, from RMB62.8 million in 2013 to RMB77.0 million in 2014. Such increase primarily reflected the increase of interest expense from bank borrowings due to increase in bank borrowings in 2014, partially offset by the decrease in interest in relation to the liability component of the convertible bonds due to the conversion to shares of the Company in the first half of 2013.

Profit Before Income Tax

As a result of the foregoing, profit before income tax increased from RMB442.2 million in 2013 to RMB461.7 million in 2014.

Income Tax Expense

The Group recognized income tax expense of RMB71.7 million in 2013 and RMB46.5 million in 2014. Effective tax rate was approximately 16.2% in 2013 and 10.1% in 2014. The decrease in effective tax rate was mainly attributable to (i) the change of accounting estimate on withholding tax that would be payable on the accumulated unremitted earnings generated from the Company's PRC subsidiaries; we decreased the initial accrual rate of 10% to a preferential rate of 5% 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%, and (ii) the RMB74.0 million non-deductible losses from changes in fair value of the embedded derivative of the convertible bonds recognized in 2013.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company increased from RMB344.6 million in 2013 to RMB397.7 million in 2014.

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain non-GAAP financial measures have been presented in this financial review. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Company's financial performance prepared in accordance with HKFRS.

The Company believes that, in conjunction with GAAP financial measures, the non-GAAP financial measures provide meaningful supplemental information to both investors and management in assessing the Group's performance and planning for future periods.

The non-GAAP financial measures do not include all items that impact the Group's financial performance prepared in accordance with HKFRS. It excludes share-based compensation expenses, losses in changes in fair value of the embedded derivative of the convertible bonds and fair value losses/(gains) on swap, which have been and might continue to be significant non-cash expenses in the Group's financial performance prepared in accordance with HKFRS. In addition, the non-GAAP financial measures may not be comparable to similar titled measures utilized by other companies since such other companies may not calculate such measures in the same manner as the Company does.

The Company expects to compute the non-GAAP financial measures using consistent methods going forward. The following table sets forth the reconciliations of the non-GAAP financial measures for 2014 and 2013 to the nearest measures prepared in accordance with HKFRS:

Year ended 31 December 2014

	As Reported RMB'000	Share-based compensation RMB'000	Changes in fair value of the embedded derivative of the convertible bonds (a) RMB'000	Fair value losses on swap (b) RMB'000	Non-GAAP RMB'000
Operating profit	**535,792**	**14,686**	**–**	**658**	**551,136**
Profit before income tax	**461,709**	**14,686**	**–**	**658**	**477,053**
Profit attributable to equity owners of the Company	**397,692**	**14,686**	**–**	**658**	**413,036**
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	**0.2345**				**0.2435**

Year ended 31 December 2013

	As Reported RMB'000	Share-based compensation RMB'000	Changes in fair value of the embedded derivative of the convertible bonds (a) RMB'000	Fair value losses on swap (b) RMB'000	Non-GAAP RMB'000
Operating profit	504,194	3,539	73,960	2,984	584,677
Profit before income tax	442,205	3,539	73,960	2,984	522,688
Profit attributable to equity owners of the Company	344,630	3,539	73,960	2,984	425,113
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	0.2073				0.2557

Note:

(a) The Company issued convertible bonds to CITIC Capital China Access Fund Limited ("**CITIC**") at total nominal value of HK$233,250,000 on 9 December 2011, with an interest rate of 3.5% per annum. As the convertible bonds are denominated in a currency other than the Company's functional currency which is RMB, the convertible bonds comprise a host debt instrument denominated in Hong Kong Dollar ("**HKD**") and a conversion option to exchange a fixed number of the Company's own equity instrument for a fixed amount of cash that is denominated in HKD. The conversion option is not an equity instrument, but an embedded derivative that is not closely related to the host debt instrument, because the risk inherent in the derivative and the host are dissimilar. Therefore, the conversion option is separated and classified as an embedded derivative, and initially recognized at fair value assessed using valuation techniques.

Subsequent to initial recognition, the embedded derivatives are carried at fair value. The changes in the fair value are charged to income statements when occurred.

The convertible bonds have been fully converted to the Company's ordinary shares as at 31 December 2013.

(b) The Company obtained certain bank borrowings denominated in currencies other than the Company's functional currency at floating interest rates. The Company uses derivative financial instruments to hedge against the exposures to uncertainty of future expected cash flows of interest and principal repayments.

These derivative financial instruments are accounted for at fair value through profit or loss. Changes in the fair value of these derivatives instruments are recognized immediately in the consolidated income statement.

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 years indicated:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Inventory	**840,540**	737,725
Turnover days of inventory (in days)(1)	**185**	165

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2013 and 2014. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase in inventory turnover days from 165 days as at 31 December 2013 to 185 days as at 31 December 2014 primarily reflected an increase in inventory balance associated with (i) an accretion of inventory balances of subsidiaries acquired by the Group in 2014, (ii) increase in finished drill pipes for oilfield equipment manufacturing and services segment due to revenue from overseas branches increased in 2014, (iii) an increase of inventory for oilfield service segment due to more drill rigs were on-site in 2014, and (iv) an increase of inventory for offshore engineering services segment which was newly established in 2014.

Trade and Other Receivables

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables		
– Due from third parties	**1,492,739**	1,159,957
– Due from related parties	**68,052**	30,821
– Less: Provision for impairment of receivables	**(25,793)**	(20,000)
Trade receivables-net	**1,534,998**	1,170,778
Other receivables		
– Due from third parties	**78,269**	88,403
– Due from related parties	**88,363**	39,999
Other receivables	**166,632**	128,402
Bills receivable	**70,397**	105,781
Prepayments	**105,589**	128,802
Dividend receivables	**1,550**	648
Total	**1,879,166**	1,534,411

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 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**1,012,791**	804,505
– Over 90 days and within 180 days	**187,679**	121,358
– Over 180 days and within 360 days	**129,314**	115,478
– Over 360 days and within 720 days	**168,441**	91,221
– Over 720 days	**62,566**	58,216
	1,560,791	1,190,778
Turnover days of trade receivables, net(1)	**192**	165

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2013 and 2014. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

As at 31 December 2014, trade receivables of RMB522.2 million, representing 33.5% 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 the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

The increase in turnover days of trade receivables from 165 days as at 31 December 2013 to 192 days as at 31 December 2014 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the PRC market was less active and slowed down in 2014.

Trade and Other Payables

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

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Bills payable	**128,776**	142,126
Trade payables		
– Due to related parties	**–**	1,247
– Due to third parties	**560,352**	339,710
Other payables		
– Due to related parties	**48,624**	–
– Due to third parties	**86,494**	73,828
Staff salaries and welfare payables	**37,122**	29,489
Advance from customers	**25,533**	24,290
Interest payables	**1,096**	2,798
Accrued taxes other than income tax	**42,145**	24,691
Dividends payable	**1,463**	11,857
Other liabilities	**10,845**	11,212
	942,450	661,248

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade payables, gross		
– Within 90 days	**485,303**	310,169
– Over 90 days and within 180 days	**52,707**	7,043
– Over 180 days and within 360 days	**20,440**	2,560
– Over 360 days and within 720 days	**463**	19,477
– Over 720 days	**1,439**	1,708
	560,352	340,957
Turnover days of trade payables[1]	**106**	76

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2013 and 2014. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2013 to 31 December 2014 reflected (i) the procurement of the pipe-laying vessel, (ii) the increase of payables related to OCTG trading and related services in oilfield services segment, and (iii) the centralizing of procurement activities to group level which increased our bargaining power and enabled us to get better payment terms from suppliers.

BUSINESS REVIEW

In 2014, Hilong encountered multiple challenges from both domestic and international markets, among which the slide of international oil price, the adjustments in domestic market and the fluctuation of foreign exchange rate of certain currencies have brought a big impact on the Company's operation. On the other side, the Company launched several new businesses in 2014, which stored continuous growth impetus for future development despite the fact that corresponding upfront expenses have incurred during the year. However, Hilong still maintained steady operation and achieved satisfactory operational results in the last year. In 2014, the Company recorded a total revenue of RMB2,576 million, which indicated a 5% growth as compared to that of 2013. The net profit attributable to equity owners of the Company increased by 15% to RMB398 million. The Non-GAAP net profit attributable to equity owners of the Company, which reflected the actual operational results, amounted to RMB413 million and remained in line with that of 2013.

In order to achieve higher operating efficiency, the Company restructured its existing business segments. The specific measures include moving OCTG coating services from the original coating materials and services segment to drill pipe and related products segment to establish oilfield equipment manufacturing and services segment; forming line pipe technology and services segment comprising coating materials, line pipe coating services, CRA lined pipe, CWC services and line pipe inspection services. Meanwhile, the Company also achieved breakthrough in the aspect of developing new business and expanding into new markets, in particular, the Company has successfully marched into offshore engineering services area through the establishment of offshore engineering services segment. While focusing on the specialized operation, Hilong is also committed to improving profitability and anti-risk capability through maintaining a moderately diversified business portfolio, which will lay a solid foundation for the Company's development in the new stage and under the new market environment.

Oilfield Equipment Manufacturing and Services

The new oilfield equipment manufacturing and services segment was established through the merging of the original drill pipe and related products business and OCTG coating services business. This segment achieved a total revenue of RMB1,270 million in 2014, representing a slight growth as compared to 2013. Within the segment, revenue generated by the drill pipe and related products business amounted to RMB994 million, reflecting a slight increase over 2013. Hilong continued to maintain a leading and stable market position in domestic market and also achieved a significant breakthrough in overseas sales for its drill pipe products. In 2014, sales of drill pipe products in international markets increased significantly by 79% to RMB572 million and contributed 62% of Hilong's total drill pipe sales across the global markets. Hilong's drill pipe products have received recognition from more customers in the international markets and the Company will be able to obtain more global market shares in the future. Amongst our products composition, the percentage of revenue generated from high-end non-API drill pipes remained stable. The orders for certain existing premium products such as sour-service drill pipe, slip-protected drill pipe and non-slip-crush drill pipe were substantially increased as compared to 2013. Development of new products also saw notable progress. A number of new non-API drill pipe products including gas seal drill pipe and efficient cuttings bed clean drill pipe were successfully developed and highly appreciated and widely recognized by the customers during the market promotion process.

The OCTG coating services business realized a total revenue of RMB276 million in 2014, which was more or less the same as compared to 2013. During the year, Hilong made further efforts in accelerating capacity expansion worldwide and successfully acquired Texas Internal Pipe Coating, LLC ("**TIPC**") in US and Hilong Temerso Co., Ltd. ("**Hilong Temerso**")[(1)] in Russia. These two acquisitions significantly expanded Hilong's capacity for OCTG coating services and further strengthened the Company's international competitiveness in this business area. Representing Hilong's another successful expansion in North America, the acquisition of TIPC will enhance the market influence of Hilong brand in this region from all respects and help Hilong to promote the application of its advanced powder-based coating materials and the matching coating process in the industry and in China, in particular. The acquisition of the OCTG coating service plant in Russia will enable the Company to better integrate the resources in the local market and thus improve the operational efficiency.

Line Pipe Technology and Services

The line pipe technology and services segment is composed of coating materials, line pipe coating services, CRA, CWC and line pipe inspection services after the business segment reorganization. The Company faced with severe challenges for the operation of this segment in 2014. As compared to 2013, the total revenue from this segment for 2014 decreased 26% to RMB272 million. In domestic market, the suspension of most of the line pipe construction projects resulted in the scarcity of the number of traditional line pipe coating service projects in China and further resulted in declined demand for line pipe coating materials and services in domestic market. Considering the uncertain outlook for this business segment in domestic market in the near term, Hilong continued to make great efforts in expanding the overseas markets in 2014 in order to seek new revenue sources and growth impetus for traditional line pipe coating services. In 2014, Hilong was involved in several international line pipe coating services projects including the APA Group project from Australia and achieved remarkable progress in overseas market expansion. Although the newly developed CRA and CWC businesses were still at the early stage of operation and have not reached large-scale production, Hilong has already obtained several contracts from major domestic and international customers in 2014, including the CRA projects

(1) The OCTG coating plant in Russia was renamed to Hilong-Yekaterinburg LLC after the acquisition.

from China National Petroleum Corporation ("**CNPC**") Tarim Oilfield and Sichuan Oil and Gas Construction Engineering Company Ltd. (四川石油天然氣建設工程有限責任公司) and the CWC contract in relation to the APA Group project in Australia jointly with Baosteel. Hilong's performance in these projects gained wide recognition from customers. The line pipe inspection services business has seen a promising momentum of development since its launch in 2014 and successively won the internal inspection service projects for onshore natural gas pipelines from CNPC and offshore natural gas pipelines from CNOOC Limited ("**CNOOC**") with Hilong's performance widely appraised by the customers. The above achievements enabled Hilong to establish the first-mover advantage while further extend and improve the value chain for line pipe services at the same time, which will contribute to building up the track record and customer base for Hilong to evolve into a one-stop solution provider of line pipe services in the future.

Oilfield Services

The overall operation of oilfield services segment has been very stable in 2014. During the reporting period, the segment realized a total revenue of RMB1,032 million, indicating a growth of 18%. The growth mainly derived from the increased day-rate revenue generated by the new drilling rigs and the development of comprehensive services. The increased day-rate revenue was primarily attributable to the high-end equipment that were newly put into operation, such as HL-27, the 3,000HP high temperature high pressure drilling rig providing drilling services for Shell in Nigeria since 2014, and the two rigs that started operation in the second half of 2013 in Pakistan. As the first 3,000HP drilling rig operated by Hilong, HL-27 has been under smooth operation since its commencement of service and the outstanding performance of the drilling team has been highly recognized by the customer. This further reinforced Hilong's leading market position in the most high-end onshore drilling service field and is expected to bring more precious opportunities for Hilong to cooperate with international top-tier customers. During the same period, the comprehensive services also recorded steady development. The OCTG trading and related services achieved remarkable growth, recording a 50% increase in revenue as compared to 2013. It is expected that the OCTG trading and related services business will grow into one of the stable revenue sources for the oilfield services segment in the future. With teams for comprehensive services including mud engineering service already formed, Hilong will soon launch a number of comprehensive services and further expand the business horizon of its oilfield services segment.

Offshore Engineering Services

As Hilong's newly established business segment in 2014, the offshore engineering services segment focuses on providing offshore pipe-laying service as well as offshore lifting and installation service at the initial stage with the operation of the offshore pipe-laying derrick vessel Hilong 106 as a starting point, complemented with offshore engineering design service. Several key preparatory works before launching the operation of this segment including establishing the relevant entities, setting up the operational system, obtaining the certificates and qualifications required for operation and forming the core team were all completed in 2014. The renovation and modification of Hilong 106 was also finished as at the date of this report. In relation to market development, Hilong has successfully won two major EPCI[1] service contracts from CNOOC and will utilize Hilong 106 to build the offshore line pipes for CNOOC's Weizhou Phase II Project and East China Sea Project, respectively. The total contract value for these two projects amounted to approximately RMB550 million. Winning the two major contracts indicated that Hilong has already gained recognition from the premium domestic clients in this field represented by CNOOC and set a good beginning for the comprehensive launch of Hilong's offshore engineering services business in 2015. Hilong thus has become the first domestic private company in the offshore engineering services industry that won such large-scale EPCI service contracts.

(1) EPCI services include engineering, procurement, construction and installation.

The Company recruited international top talents and established an elite team for the offshore engineering design service business, which primarily provides technical support for Hilong's offshore engineering services business but also offers design consulting services to external customers. Leveraging on its advanced technical strength, the team contributed to Hilong's winning of the aforementioned two EPCI service contracts from CNOOC through provision of strong technical support and will be fully involved in the implementation of the contracts, focusing on the areas including designing construction program and guiding field operation. In the meantime, the team also obtained several external contracts in 2014 with its design proposals widely appraised by the customers. The team also entered into a cooperation agreement with a customer to provide independent third-party technical consultation. The above fully reflected the value generated by the offshore engineering design service team both internally and externally.

RESEARCH AND DEVELOPMENT

Hilong's research and development ("**R&D**") work also made tremendous accomplishments in 2014. During the year, the R&D team for drilling tools carried out multiple R&D projects including new products development and continuous technological improvement and obtained 14 patents. These projects mainly targeted to develop new drilling tools applicable to complicated geological conditions. Hilong accelerated the R&D work for new products such as special offshore pipes, coating materials used on offshore vessels and coating materials for offshore engineering purposes, and will strive to realize production of the relevant products soon.

Looking back 2014, Hilong maintained stable operation while firmly executed the established development strategy and achieved satisfactory results under volatile market environment. During the year, the Company followed the development philosophy of integrating products with services, reorganized the existing business and gradually moved up to the higher-end of the value chain. The overseas expansion also harvested breakthrough including successful acceleration of capacity expansion and market exploration worldwide. Above all, Hilong made a successful debut in the offshore engineering services field in 2014 and opened a new chapter of marching into the offshore business field from the onshore business area.

PROSPECTS

In 2015, Hilong will still be confronted with complicated and unfavorable market conditions. In particular, the international oil price which still lingers around at low levels will possibly cause certain customers to adjust their capital expenditure plans and eventually impact the demand for Hilong's products and services and bring continuous pressure on the Company's operation. On the other hand, the year of 2015 will also be the first year in which Hilong will be expecting initial results after making adjustments to its business strategy. Looking into 2015, Hilong is confident that it could maintain stable operation for its existing business while expecting its new businesses led by the offshore engineering services to bring new growth drivers for the Company.

Hilong will continue to make more efforts to improve the sales of drill pipe products in overseas markets and reinforce Hilong brand's international influence. On the other hand, the Company will devote more resources to promote the sales of non-API drill pipe and related services with high added value. The OCTG coating services will see new development opportunities after the adjustment of capacity. It is expected that the newly acquired TIPC will contribute full-year revenue in 2015 while its advanced technology and strong profitability will lead the overall growth of Hilong's OCTG coating services business. Meanwhile, the Company plans to strengthen the cooperation between TIPC and the OCTG coating service plant in Canada and further bolster Hilong's market position in North America. The Company recently completed the acquisition of the OCTG coating service plant in Russia at the end of 2014 and will soon launch internal integration and other works, targeting to achieve the improvement of operation in 2015.

Hilong will embrace new development opportunities for line pipe coating services business in 2015. Certain construction projects for oil and gas line pipes in China will be resumed in 2015 while some major international projects are also expected to expedite construction in 2015, which will all constitute potential business for line pipe coating services. As a result, sales of line pipe coating materials is also expected to be boosted. Going forward, Hilong will give equal attention to both domestic and international markets, balance the market risks through diversification of projects and customers and aim to improve Hilong's international competitiveness in this field. Hilong has already gained the relevant CRA and CWC contracts attached to the offshore pipe-laying service contract for the East China Sea Project, which generated synergies between Hilong's different business segments and set a good start for Hilong to grow into an integrated offshore engineering services provider. The Company will continue to expand the market for its CRA and CWC business, particularly the overseas markets. Hilong will also focus resources to promote the large-scale operation of CRA and CWC, enhance the profitability through improving production efficiency and develop these two businesses into the new drivers leading segment's growth in the future. In the meantime, the Company will accelerate the development of line pipe inspection services, make further efforts in market exploration and strengthen its market position by fully utilizing the time advantage and market opportunities.

The oilfield services segment will be expected to continue to maintain steady development. In addition to maintaining stable operation of the existing rigs, Hilong will keep exploring new market opportunities and improve the operational efficiency of the existing projects. The Company will also increase the proportion of comprehensive services, expand the scope of services and enhance its capability of providing integrated services. Moreover, Hilong will continue to strive to cooperate with international renowned customers and is devoted to building high-end brand positioning for its oilfield services.

The offshore pipe-laying derrick vessel Hilong 106 will soon commence its offshore pipe-laying work for CNOOC's Weizhou Phase II Project and East China Sea Project in the first half of 2015. As Hilong's most outstanding achievement in 2015, it is expected that these two major contracts will inject impetus for continuous growth in times of adversity, bring new revenue sources and effectively improve the Company's risk-resistance ability. Meanwhile, the Company is actively looking for other potential opportunities and strives to win more contracts for Hilong 106 within the year. The offshore engineering design service team will also speed up its development in 2015. Hilong is confident to seize the first-mover advantage and achieve new heights in the new business field of offshore engineering services.

Looking ahead into 2015, we firmly believe that, Hilong will continue to generate substantial returns for the shareholders with our endeavors.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Net cash from operating activities	**260,734**	174,022
Net cash used in investing activities	**(1,319,978)**	(500,661)
Net cash from financing activities	**1,213,254**	322,683
Net increase/(decrease) in cash and cash equivalents	**154,010**	(3,956)
Exchange gains/(losses) on cash and cash equivalents	**3,158**	(9,117)
Cash and cash equivalents at beginning of the year	**390,889**	403,962
Cash and cash equivalents at end of the year	**548,057**	390,889

Operating Activities

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

Net cash from operating activities in 2013 was RMB174.0 million, representing cash generated from operations of RMB414.0 million, partially offset by the interest payment of RMB89.8 million and income tax payment of RMB150.2 million.

Investing Activities

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

Net cash used in investing activities in 2013 was RMB500.7 million, primarily reflecting payment of RMB458.5 million for purchases of property, plant and equipment, and payment of RMB24.5 million for investments in joint ventures.

Financing Activities

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

Net cash generated from financing activities in 2013 was RMB322.7 million, primarily reflecting proceeds of RMB1,136.6 million from borrowings, offset by (i) repayment of borrowings of RMB705.5 million, and (ii) dividends payment of RMB98.7 million.

CAPITAL EXPENDITURES

Capital expenditures were RMB519.5 million and RMB1,296.4 million in 2013 and 2014 respectively. The increase in capital expenditures in 2014 primarily reflected the procurement of pipe-laying vessel for the offshore engineering services segment, partially offset by the decrease of capital expenditures made in connection with purchase of drilling rigs for oilfield services segment.

INDEBTEDNESS

As at 31 December 2014, the outstanding indebtedness of RMB2,462.6 million was mainly denominated in USD, RMB and HKD. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Non-current		
Bank borrowings – secured	**–**	22,000
Bank borrowings – unsecured	**1,891,464**	484,676
Less: Current portion of non-current borrowings	**(261,503)**	–
	1,629,961	506,676
Current		
Bank borrowings – secured	**22,028**	140,694
Bank borrowings – unsecured	**549,081**	513,310
Current portion of non-current borrowing	**261,503**	–
	832,612	654,004
	2,462,573	1,160,680

The bank borrowings of RMB22.0 million were secured by certain bank deposits of the Group, with a carrying amount of RMB32.5 million as at 31 December 2014.

GEARING RATIO

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

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

The gearing ratios as at 31 December 2014 and 2013 are as follows:

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Total borrowings	**2,462,573**	1,160,680
Less: Cash and cash equivalents	**(548,057)**	(390,889)
Net debt	**1,914,516**	769,791
Total equity	**3,143,249**	2,873,587
Total capital	**5,057,765**	3,643,378
Gearing ratio	**37.85%**	21.13%

The increase in the gearing ratio as at 31 December 2014 when compared to the gearing ratio as at 31 December 2013 resulted primarily from the increase in the balance of borrowings in 2014.

FOREIGN EXCHANGE

The Group mainly operates in the PRC, and also has network in various countries and regions around the world. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to 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 26.1% appreciation of RMB against the USD from 21 July 2005 to 31 December 2014. 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 37.7% and 47.9% of the total revenue of the Company in 2013 and 2014, respectively.

BUSINESS COMBINATION

Acquisition of US Coating Business

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

Acquisition of Russia Coating Business

The Group originally held a 56% equity interest in Hilong Temerso, a provider of coating services in Russia. The Group acquired an additional 44% equity interest in Hilong Temerso from Kamelon LLC and obtained the control of Hilong Temerso on 1 December 2014. After the acquisition, the Group's effective equity interest in Hilong Temerso increased from 56% to 100%. In addition, the Group also acquired a 100% equity interest in Technomash LLC which is under the common control of Kamelon LLC.

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

STAFF AND REMUNERATION POLICY

As at 31 December 2014, the total number of full-time employees employed by the Group was 2,658 (31 December 2013: 2,117). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2014:

On-site workers	1,714
Administrative	402
Research and development	163
Engineering and technical support	249
Company management	42
Sales, marketing and after-sales services	88
	2,658

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 announcement, none of the share options granted was exercised.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The Board consists of nine directors, including three executive directors, three non-executive directors, and three independent non-executive directors. The table below sets forth information regarding our Board of Directors:

Name	Age	Management Position
ZHANG Jun (張軍)	47	Chairman, executive Director and chief executive officer
WANG Tao (汪濤)	51	Executive Director and executive president
JI Min (紀敏)	39	Executive Director and chief financial officer
ZHANG Shuman (張姝嫚)	41	Non-executive Director and chief strategy officer
YUAN Pengbin (袁鵬斌)	56	Non-executive Director
LI Huaiqi (李懷奇)	65	Non-executive Director
WANG Tao (王濤)	68	Independent Non-executive Director
LIU Qihua (劉奇華)*	49	Independent Non-executive Director
LEE Siang Chin	66	Independent Non-executive Director
LIU Haisheng (劉海勝)	68	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 47, is an Executive Director, the chairman of the Board and chief executive officer of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. As the chief executive officer, Mr. Zhang is responsible for the overall business operations and strategy formulation of the Company. Mr. Zhang has over 22 years of experience in the petroleum industry. From 2001 to 2007, he engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. During his service as vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was awarded one of the "Top 10 Influential Leaders in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009" (2009中國石油石化裝備製造業十大最具影響力領軍人物) by the National Energy Commission (國家能源委員會). Mr. Zhang is the brother of Ms. Zhang Shuman, Non-executive Director, chief strategy officer and joint company secretary of the Company and he is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

Mr. WANG Tao (汪濤), aged 51, is an Executive Director, executive president and a member of the nomination committee of the Company. He was appointed as Non-executive Director on 2 December 2010 and was re-designated as an Executive Director on 29 March 2012. He also serves as directors of Hilong Drilling & Supply FZE and Hilong Oil Service and Engineering Nigeria Limited since 2010. Mr. Wang has over 26 years of management experience in the petroleum industry and he served as vice general manager of Hilong Group of Companies Ltd. from 2006 to February 2012 and he has served as the executive president since February 2012. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991 and was responsible for on-site operation and business administration. From 1991 to 2001, he served as assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

* Mr. LIU Qihua resigned as an Independent Non-executive Director with effect from 19 December 2014.

Mr. JI Min (紀敏), aged 39, is an Executive Director and the chief financial officer of the Company. He was appointed as Executive Director of the Company on 2 December 2010. As chief financial officer, Mr. Ji is responsible for overall financial and corporate finance management of the Company. He worked for PricewaterhouseCoopers from 1997 to 2006 and served as its senior manager. He gained extensive experiences in auditing and client management and participated in the audit work of several initial public offerings in China, including the listing of PetroChina Company Limited (中國石油天然氣股份有限公司) on the Stock Exchange (stock code: 0857). Prior to joining the Group in 2010, Mr. Ji acted as finance director of The9 Limited, an online gaming operation and development company (NASDAQ: NCTY), where he was responsible for overall financial operation from 2006 to 2007. From 2007 to 2010, he served as vice president of T2CN Information Technology (Shanghai) Co., Ltd. (天聯世紀信息技術(上海)有限公司), an internet technology and service provider and was responsible for the financial, legal, human resources and administrative management. Mr. Ji received a Bachelor's degree in Accounting from Shanghai Jiaotong University (上海交通大學) in 1997. He is a member of the Chinese Institute of Certified Public Accountants.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 41, is a Non-executive Director, the chief strategy officer, joint company secretary and a member of the audit committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. She was re-designated as a Non-executive Director of the Company on 29 March 2012. Ms. Zhang has over 18 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003. Ms. Zhang is primarily responsible for the financing activities and strategic investment activities of the Group. She has been a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. From 2003 to 2006, Ms. Zhang acted as the joint secretary to the board of directors and coordinator of a China joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the sister of Mr. ZHANG Jun, Executive Director, chairman of the Board, chief executive officer and substantial and controlling shareholder of the Company.

Mr. YUAN Pengbin (袁鵬斌), aged 56, is a Non-executive Director and a member of the remuneration committee of the Company. He was appointed as Non-executive Director on 2 December 2010. He has served as the chairman of the Board of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) since 2005, the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所) since 2006, the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 2011 and a secretary of the party committee of Hilong Group of Companies Ltd. since July 2013. He has over 30 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011, and served as a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特(山西)石油管道塗層有限公司) from 2008 to 2012. Although Mr. Yuan will continue to hold managerial positions in our subsidiaries, his role at the Company level will be limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Center (中國石油天然氣集團公司石油管材研究所) from 1983 to 2005. He acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司). Mr. Yuan received a Bachelor's degree in Engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a Doctoral degree in Engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer (professor level) in heat treatment. Mr. Yuan is the vice president of the Association for Science and Technology of Bao Shan District, Shanghai, the member of the Association for Science and Technology of Shanghai, the deputy to the National People's Congress of Shanghai and the director of the Petroleum Pipeline Engineering Center of Shanghai (上海市石油管工程中心). Mr. Yuan had been elected as the technological talent and the leadership talent of the sixth session and the seventh session of Bao Shan District, Shanghai in 2010 and 2013, respectively, and had been elected as the leadership talent of Shanghai in 2011. He was also the member of the National Technical Committee for Refrigerating Machine Standardization of (全國試冷機標準化技術委員會) and the Failure Analysis Branch of Chinese Mechanical Engineering Society (中國機械工程學會失效分析分會). He enjoyed the special subsidy from the State Council of the People's Republic of China in 2012.

Mr. LI Huaiqi (李懷奇), aged 65, is a Non-executive Director of the Company. He was appointed as Non-executive Director on 26 August 2011. Mr. Li started to provide commercial and business consultation to the Company in 2012. He is a Senior Economist and is also the President of Chinese National Committee of World Petroleum Council. Mr. Li had been the Vice Chairman of the Listed Companies Association of Beijing. He was the Deputy Director-General of Advisory Center and Advisor of Expert Committee in China National Petroleum Corporation ("CNPC"). Mr. Li has over 40 years of experience in China's oil and natural gas industry. He had worked at Daqing Oilfield, Liaohe Oilfield, Huabei Oilfield of CNPC and China National Offshore Oil Corporation ("CNOOC") Nanhai East Corporation. In 1984, Mr. Li served as Deputy Director-General of the President's Office of CNOOC Nanhai East Corporation. From 1985 to 1990, he held positions as Director of Secretariat of Ministry of Petroleum Technology. From August 1990 to March 1992, he studied at the College of Economy of Texas A&M University in the United States. He was also the head of the First CNPC Senior Management's Training Class from August 1991 to February 1992. From June 1992, he served as Deputy Director-General and Director-General of the International Cooperation Department of CNPC. In August 2001, he was appointed as Secretary to the Board of PetroChina Co., Ltd. From June 2009, he assumed the positions of the Deputy-Director General of Advisory Center and Project Committee in CNPC. He assumed the current position as the President of Chinese National Committee of World Petroleum Council since July 2011. In 2008, Mr. Li was named "Top 100 Secretary to the Board" of Chinese Listed Companies by Securities Times. In 2009, he received the award of "Secretary to the Board of Golden Governance Social Responsibility Companies" by Shanghai Securities News and "Best Secretary to the Board Award" in the 9th Top 100 Chinese Listed Companies Summit hosted by Warton Economic Institute. He was also selected as "Excellent Secretary to the Board" in the annual appraisal for 2008-2009 by The Shanghai Stock Exchange.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 68, is an Independent Non-executive Director, the chairman of the remuneration committee, the chairman of the nomination committee and a member of the audit committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Wang has over 40 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械工業部5214廠) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and general manager, chairman and senior engineer (professor level) of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院, now known as Xidian University (西安電子科技大學)) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

LEE Siang Chin, aged 66, is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Lee has over 40 years of experience in the provision of finance consultancy services for companies in Malaysia, London, Australia and Hong Kong.

Mr. Lee is a director of the Social Security Organization of Malaysia and a member of its investment panel. He also serves as an Independent Non-executive Director for Maybank Investment Bank Berhad, Tune Insurance Malaysia Berhad, Star Publications (Malaysia) Berhad (a company listed on the Malaysian Stock Exchange) and Value Partners Group Limited (a company listed on The Stock Exchange of Hong Kong Limited).

Mr. Lee had previously served as chairman and managing director of Surf88.Com Sdn. Bhd. from 1999 to 2004 and managing director of AmSecurities Sdn. Bhd. from 1986 to 1999, and he also had worked in corporate finance of leading investment banks in London, Sydney and Kuala Lumpur. He had held various public offices and had served as a board member of the Kuala Lumpur Stock Exchange from 1987 to 1988 and president of the Association of Stock Broking Companies in Malaysia from 1997 to 1999. Mr. Lee is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Certified Public Accountants.

Mr. LIU Haisheng (劉海勝), aged 68, is an Independent Non-executive Director of the Company and a member of the Nomination Committee. He was appointed as an Independent Non-executive Director on 21 December 2012. Mr. Liu is a Senior Economist of Professor level and an expert enjoying State Council special allowance. He is a party member of the Communist Party of China. Mr. Liu worked as Office Director of the Second Machinery Factory of China National Petroleum Corporation ("CNPC") Changqing Oil Field, Plant Director, Deputy Factory Director and Factory Director of the First Machinery Factory of Huabei Oil Field, Deputy Director and Director of Huabei Petroleum Administration Bureau, Director of Planning Department and Assistant to General Manager of CNPC. He is a deputy to the 8th People's Congress of Hebei Province and a deputy to the 9th National People's Congress. Mr. Liu has over 37 years of experience in the petroleum industry and is expertise in machinery manufacturing, exploration and exploitation of oil fields, manufacturing and operation management of petrochemical enterprises. He has a high level knowledge of macro economy. Mr. Liu graduated from Beijing Institute of Petroleum in 1970.

SENIOR MANAGEMENT

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

Mr. CHEN Su (陳甦), aged 56, is a director of Hilong Oil Service and Engineering Co., Ltd. since 2008. Mr. Chen has over 30 years of experience in the petroleum industry. From 1982 to 2005, he worked in the department of steel pipe manufacturing of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司) and served as its branch factory manager, deputy general manager and general manager. In 2005, he also served as the deputy general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). Mr. Chen received a Bachelor's degree in Engineering from Shanghai University of Technology (上海工業大學) in 1982.

Mr. DAI Daliang (代大良), aged 48, is a director of Hilong Drilling & Supply FZE since 2010, a director of Hilong Oil Service and Engineering Nigeria Limited since 2010 and a director and the general manager of Hilong Oil Service & Engineering Co., Ltd. since 2008. Mr. Dai has over 24 years of experience in the petroleum industry. Prior to joining our Group, from 1989 to 1995, Mr. Dai worked as engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司) and was engaged in drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司) and was engaged in international drilling cooperation. From 1996 to 2008, he worked for Greatwall Drilling Company Limited ("GWDC", 中油長城鑽井有限公司) as its co-manager of marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by GWDC. In 2008, he worked as assistant to general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's degree in Engineering from Central South University of Technology in 1990 and a Doctorate degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. CAO Yuhong (曹育紅), aged 45, is the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 22 years of experience in the petroleum industry. Prior to joining our Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau and served as its deputy manager of coating branch from 1996. Mr. Cao received a Bachelor's degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學) in 1991.

Mr. GAO Zhihai (高智海), aged 45, is the chairman and general manager of Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 18 years of experience in the petroleum industry. Prior to joining our Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received from Southwest Petroleum University (西南石油學院) a Bachelor's degree in Engineering in 1992 and a Master's degree in Engineering in 1995. Mr. Gao was named an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. XUE Zhijun (薛志軍), aged 51, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd (天津圖博可特石油管道塗層有限公司). Mr. Xue has over 9 years of experience in the petroleum industry. Prior to joining our Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as deputy manager of CNPC Bohai Petroleum Equipment Manufacturing Company Limited First Machinery Factory (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded an "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction" (國家西氣東輸工程建設先進個人) by National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and an "Outstanding Entrepreneur in Hebei Province" (河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

Mr. XIAO Long (肖龍), aged 53, is the general manager of Hilong Marine Engineering (Hong Kong) Limited since January 2014. Mr. Xiao has over 30 years of experience in the petroleum industry. Prior to joining our Group, from 1985 to 2012, Mr. Xiao worked at China National Offshore Oil Corporation (中國海洋石油總公司) and its subsidiaries (collectively "CNOOC") in the field of construction project management and production management for offshore oil and gas field development projects. He also obtained certificates of senior engineer and general manager for large-scale projects issued by CNOOC. During his employment with CNOOC, Mr. Xiao has served various positions including engineering supervisor, platform department manager, deputy principal project manager and principal project manager, and managed a number of large-scale offshore projects in respect of construction project management. From 2012 to 2013, he served as vice president of Rongsheng Offshore & Marine Pte. Ltd., Singapore and general manager of Jiangsu Rongsheng Offshore Engineering Co., Ltd. (江蘇熔盛海洋工程有限公司), and was mainly responsible for project management for construction of offshore vessels and equipment. Mr. Xiao obtained a Bachelor's degree in Engineering from Guangdong Mechanics Institute (廣東機械學院, now known as Guangdong University of Technology (廣東工業大學)) in 1985.

JOINT COMPANY SECRETARIES

Ms. CHENG Pik Yuk (鄭碧玉), aged 57, is a corporate services director of Tricor Services Limited, providing corporate secretarial services to client companies. Prior to joining the Tricor Group, she was a senior manager of the company secretarial department of Deloitte Touche Tohmatsu and also served as the departmental manager. Ms. Cheng has worked in the company secretarial departments of a number of international accounting firms and has over 30 years of experience in the company secretarial field. She has been providing corporate secretarial support services to listed companies and multi-national groups. Ms. Cheng is a Fellow Member of The Institute of Chartered Secretaries and Administrators in the U.K. and The Hong Kong Institute of Chartered Secretaries ("HKICS"), and is a holder of the Practitioner's Endorsement of the HKICS. She was appointed as a joint company secretary of the Company on 10 February 2011.

Ms. ZHANG Shuman (張姝嫚), aged 41, was appointed as a joint company secretary of the Company on 10 February 2011. Ms. Zhang has over 6 years of experience in corporate secretarial services. She acted as secretary to the board of directors of UMW Ace (L) Ltd. from 2003 to 2006. For further details regarding Ms. Zhang's experience, see "– BOARD OF DIRECTORS – Non-executive Directors" above.

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2014.

The Company has adopted the Corporate Governance Code (the "CG Code") as contained in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance. The Company has applied the principles set out in the CG Code during the year under review. The manner in which the principles and code provisions in the CG Code are applied and implemented during the year ended 31 December 2014 (the "year") is explained in this Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

BOARD OF DIRECTORS

The Board currently comprises nine members, consisting of three executive directors, three non-executive directors and three independent non-executive directors.

The Board of the Company comprises the following directors:

	Ethnicity (Nationality)	Age	Length of Service with the Group (Since)
Executive Directors:			
Mr. Zhang Jun *(Chairman and Chief Executive Officer)*	Chinese	47	2001
Mr. Wang Tao (汪濤) *(Executive President)*	Chinese	51	2006
Mr. Ji Min *(Chief Financial Officer)*	Chinese	39	2010
Non-executive Directors:			
Ms. Zhang Shuman *(Chief Strategy Officer)*	Chinese	41	2008
Mr. Yuan Pengbin	Chinese	56	2005
Mr. Li Huaiqi	Chinese	65	2011
Independent Non-executive Directors:			
Mr. Wang Tao (王濤)	Chinese	68	2010
Mr. Lee Siang Chin	Malaysian	66	2010
Mr. Liu Haisheng	Chinese	68	2012

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

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

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

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

Independent Non-executive Directors

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

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

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

Terms of Directors

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

Continuing Professional Development of Directors

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

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

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

During the year, a training on updates on connected transaction rules conducted by the Company's external legal advisers, and relevant reading materials and seminar handouts relating to financial management, corporate governance, risk management and internal control, regulatory updates on rules and regulations and major roles and responsibilities of director, and SFC corporate regulation newsletter were provided to all directors, namely Mr. Zhang Jun, Mr. Wang Tao (汪濤), Mr. Ji Min, Ms. Zhang Shuman, Mr. Yuan Pengbin, Mr. Li Huaiqi, Mr. Wang Tao (王濤), Mr. Liu Qihua (resigned with effect from 19 December 2014), Mr. Lee Siang Chin and Mr. Liu Haisheng for their reference and studying.

BOARD COMMITTEES

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

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 4 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year, the Audit Committee held three meetings to review annual financial results and report in respect of the year ended 31 December 2013, interim financial results and report in respect of the six months ended 30 June 2014, the unaudited consolidated financial statements for the nine months ended 30 September 2014 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, connected transactions, arrangements for employees to raise concerns about possible improprieties, and to evaluate and assess the effectiveness of the Audit Committee and the adequacy of the terms of reference of the Audit Committee and consider whether any update or amendment is required.

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

Remuneration Committee

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

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

Nomination Committee

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

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

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

During the year, the Nomination Committee met twice to review the structure, size, composition and diversity of the Board, the "Board Diversity Policy" and consider whether any update or amendment is required, the independence of the independent non-executive directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting, and to evaluate and assess the effectiveness of the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required. Also, the Nomination Committee submitted the resignation of Mr. Liu Qihua as an independent non-executive director and a member of the Nomination Committee and also the proposal for the appointment of Mr. Liu Haisheng as the new member of the Nomination Committee to fill the vacancy left by Mr. Liu Qihua to the Board for review and approval in December 2014.

Corporate Governance Functions

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

The Board met three times to review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

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

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

Resigned with effect from 19 December 2014
(1) Up to 19 December 2014
(2) Since 19 December 2014

Apart from regular Board meetings, the Chairman also held a meeting with non-executive directors (including independent non-executive directors) without the presence of executive directors during the year.

DIRECTORS' RESPONSIBILITIES FOR PREPARING FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2014.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 55 to 56 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2014, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	3,250
Non-audit Services	
– Financial due diligence services	896
– Tax services	602
– Other non-audit services	288
Total	5,036

INTERNAL CONTROLS

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

During the year ended 31 December 2014, the Board conducted a review of the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and is satisfied with its effectiveness.

COMPANY SECRETARY

Ms. Cheng Pik Yuk of Tricor Services Limited, external service provider, has been engaged by the Company as its joint company secretary. The primary contact persons at the Company are Ms. Zhang Shuman (non-executive director and Joint Company Secretary) and Mr. Song Xin (General Counsel).

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated financial statements of this annual report.

DIVIDEND

During the year ended 31 December 2014, a final dividend of HK7.7 cents per share, amounting to a total dividend of approximately HK$130.6 million (equivalent to approximately RMB103.9 million) for the year ended 31 December 2013, was paid to shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK5.0 cents per share, amounting to approximately HK$84.8 million (equivalent to approximately RMB66.9 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2014, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company ("AGM"). Upon approval of the shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on Wednesday, 15 July 2015 to the shareholders of the Company whose names appear on the register of members of the Company as at Tuesday, 7 July 2015.

RESERVES

Details of movement in the reserves of the Group for the year ended 31 December 2014 are set out in note 18 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2014, the reserves of the Company available for distribution to shareholders amounted to RMB1,258.2 million (2013: RMB1,272.4 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest and five largest customers were 8.2% and 26.9% of the Group's total sales respectively (2013: 8.0% and 30.0%). The aggregate purchases attributable to the Group's largest and five largest suppliers were 10.0% and 33.1% of the Group's total purchases respectively during the year under review (2013: 6.5% and 20.7%).

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2014 are set out in note 19 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year under review amounted to RMB76,000 (2013: RMB5,700).

PROPERTY, PLANT AND EQUIPMENT

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

ISSUED SHARES

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

CONVERTIBLE BONDS

On 9 December 2011, the Company issued 3.5% unsecured convertible bonds due 2014 in an aggregate principal amount of HK$233,250,000 (the "Bonds") to CITIC Capital China Access Fund Limited ("CITIC Capital") at the issue price of 100% of the principal amount of the Bonds (the "Issue"). The net proceeds from the Issue, after deduction of expenses, amount to approximately HK$232 million. Assuming full conversion of the Bonds at the initial conversion price of HK$2.40 per share, the Bonds would be convertible into approximately 97,187,500 shares, representing approximately 6.07% of the issued share capital of the Company as of the date of the Issue. The Bonds are not listed on the Stock Exchange or any other stock exchange. Details of the Issue and the principal terms of the Bonds are set out in the Company's announcement dated 30 November 2011.

In February 2013, CITIC Capital elected to exercise its conversion rights attached to the Bonds to convert part of the Bonds in an aggregate principal amount of HK$93,300,000 into 38,875,000 shares of the Company at the conversion price of HK$2.40 per share. In June 2013, CITIC Capital elected to further exercise its conversion rights attached to the Bonds to convert the remaining part of the Bonds with the principal amount of HK$139,950,000 into 58,312,500 shares of the Company at a price of HK$2.40 per share. As at the date of this annual report, all of the Bonds have been converted into Company's shares.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 152 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the year are as follows[1]:

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Liu Qihua (劉奇華)[2]
Mr. Lee Siang Chin
Mr. Liu Haisheng (劉海勝)

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

(2) Mr. Liu Qihua resigned as an independent non-executive Director with effect from 19 December 2014.

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

Mr. Zhang Jun, Mr. Wang Tao (汪濤) and Mr. Li Huaiqi will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with article 84 of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company under which they agreed to act as executive Directors for a term of three years commencing from their respective effective date of appointment, which may be terminated by not less than one month's notice in writing served by either the executive Director or the Company. Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments of Directors are subject to the provisions of retirement by rotation of Directors under the Articles.

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

EMOLUMENT POLICY

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

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

As at 31 December 2014, the total number of full-time employees of the Group was 2,658 (31 December 2013: 2,117). Employee costs excluding the Directors' remuneration totaled RMB465,554,000 for the year of 2014. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

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

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

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

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2014 were within the following bands:

	Number of Senior Management
HK$1,000,001 to HK$2,000,000	4
HK$2,000,001 to HK$2,500,000	2
	6

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during or at the end of the 2014 financial year in which a Director, was materially interested either directly or indirectly.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance in relation to the Group's business was entered into between the Company, or one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2014.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as the Pre-IPO share option scheme, the Post-IPO share option scheme and save as disclosed in the section headed "Directors' interests and short positions in the securities of the Company and its associated corporations", at no time during the year was the Company or any of its subsidiaries a party to any arrangements that would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PRE-IPO SHARE OPTION SCHEME

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

(a) Purpose

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

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

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

(b) Who may join

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

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

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

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

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

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

(c) Maximum number of Shares

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

(d) Subscription price

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

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

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

(f) Expiry of option

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

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

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

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

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

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

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

Category/name of grantees	Number of share options: Outstanding as at 1 January 2014	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2014	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Directors									
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012 – 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012 – 31 December 2020
Mr. Ji Min	640,000	–	–	–	640,000	2.60	–	1 January 2011	21 April 2012 – 31 December 2020
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012 – 31 December 2020
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012 – 31 December 2020
In aggregate	6,140,000	–	–	–	6,140,000				
Employees of the Group other than Directors									
In aggregate	27,290,700	–	(948,800)	(887,600)	25,454,300	2.60	5.4	1 January 2011	21 April 2012 – 31 December 2020
Total	33,430,700	–	(948,800)	(887,600)	31,594,300				

POST-IPO SHARE OPTION SCHEME

The Company adopted a Post-IPO share option scheme (the "Post-IPO Scheme") on 10 May 2013. The remaining life of the Post-IPO Scheme is approximately eight years and five months as at 31 December 2014. The following is a summary of the principal terms of the Post-IPO Scheme:

(a) Purpose

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

(b) Who may join

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

(c) Maximum number of shares

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

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

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

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

(e) Subscription price

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

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

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

(g) Expiry of option

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

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

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

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

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

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

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

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

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

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

On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this report, there are 19,563,400 outstanding share options under the Post-IPO Scheme.

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

	Number of share options									
Category/ name of grantee	Outstanding as at 1 January 2014	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2014	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	–	19,980,000	–	(416,600)	19,563,400	5.93	5.72	–	5 February 2014	5 February 2015 – 4 February 2024

DISCLOSURE OF INTERESTS

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

As at 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company[4]

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]	53.16%
	Founder of three Mr. Zhang's family trusts/ Interest of controlled corporation	112,300,800[2]	6.62%
	Beneficial owner	760,000	0.04%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000[3]	1.43%
	Beneficial owner	492,000	0.03%
Mr. Yuan Pengbin	Beneficial owner	1,151,600	0.07%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.07%

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.

(4) Mr. Lee Siang Chin ceased to hold any interest or short position in the securities of the Company since 10 July 2014.

(b) Long positions in underlying shares of the Company

Name of Director	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Mr. Ji Min	Beneficial owner	640,000	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%

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

As at 31 December 2014, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long position in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/ underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	901,723,000[(1)]	53.16%
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)]	59.86%
The Capital Group Companies, Inc.	Interest of Controlled Corporation	102,968,000[(4)]	6.07%

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) 28,451,000 shares, 20,627,000 shares, 2,046,000 shares and 51,844,000 shares are held by Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International Sarl respectively, the entire share capital of each of which is held by Capital Group International, Inc. which is then wholly-owned by Capital Research and Management Company, the entire share capital of which is then held by The Capital Group Companies, Inc. The Capital Group Companies, Inc. is therefore deemed to be interested in these shares.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2014 is contained in note 35 to the consolidated financial statements. The transactions between the Group and Hilong Oil Pipe Co., Ltd., Beijing Huashi Hilong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司), Jiangyan Hilong Wire Welding Co., Ltd.[1] (薑堰市海隆耐磨帶焊接有限公司), Mr. Zhang Jun, Mr. Wang Tao (汪濤) and Mr. Dai Daliang as described in note 35 fall under the definition of continuing connected transactions and connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such connected transactions and continuing connected transactions.

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

A. Lease of Production Site by Hilong Oil Pipe Co., Ltd. to Hilong Petropipe Co., Ltd.

On 28 February 2011, Hilong Oil Pipe Co., Ltd. ("Hilong Oil Pipe"), as landlord, entered into a tenancy agreement (the "Tenancy Agreement") with Hilong Petropipe Co., Ltd., our subsidiary, as tenant, under which Hilong Oil Pipe agreed to lease to Hilong Petropipe Co., Ltd. workshop, office and warehouse in Canada with a gross floor area of 91,312 square feet for a term commencing from 28 February 2011 and ending on 28 February 2013. On 22 March 2013, Hilong Petropipe Co., Ltd., as tenant, entered into a new tenancy agreement ("New Tenancy Agreement") with Hilong Oil Pipe, as landlord, to renew the existing lease for a term of three years from 1 March 2013 to 29 February 2016.

As at 31 December 2014, Mr. Zhang Jun, the controlling shareholder and director of the Company, and his associates hold the entire share capital in Hilong Oil Pipe. As such, Hilong Oil Pipe is an associate of Mr. Zhang and a connected person of the Company. The lease under the New Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules.

The annual rent under the New Tenancy Agreement is C$1,038,040. The annual caps for the lease under the New Tenancy Agreement for the years ending 31 December 2013, 2014, 2015 and 2016 are C$865,033 (10 months), C$1,038,040, C$1,038,040 and C$173,007 (2 months) respectively. The annual caps were determined based on the annual rent under the New Tenancy Agreement. The annual rent was determined through arm's length negotiation between the two parties with reference to the prevailing market rate for comparable premises and the annual rent under the Tenancy Agreement.

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

The New Tenancy Agreement was terminated on 23 June 2014 on which date Hilong Petropipe Co., Ltd. (the "Purchaser") entered into a purchase and sale agreement with Hilong Oil Pipe to acquire the said property. For more particulars of the acquisition, please refer to Item D below.

[1] This company was de-registered during 2014.

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

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

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

The monthly rental for 2014 under the New Tenancy Agreement is RMB436,750.51 (excluding management fees and utility fees). The parties agreed that the increase of the annual rent will not be more than 3% per annum. The annual caps for the lease under the New Tenancy Agreement for the three years ending 31 December 2014, 2015 and 2016 are RMB5,241,006, RMB5,398,236, and RMB5,560,183 respectively. The annual caps were determined based on the 2014 annual rental payable by Hilong Oil Service to Beijing Huashi Investment and the annual rental increase limits under the New Tenancy Agreement. The 2014 annual rental and the annual rental increase limits were determined through arm's length negotiations between the parties with reference to the prevailing market rate for comparable premises and the annual rental under the Tenancy Agreement.

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

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

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

(ii) on normal commercial terms or better; and

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

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

Particulars of the connected transactions conducted during the year ended 31 December 2014 are set out as follows:

C. Acquisition of 5% equity interest in Hilong Oil Service & Engineering Co., Ltd. (海隆石油技術服務有限公司) by Hilong Group of Companies Ltd. from Mr. Zhang Jun, Mr. Wang Tao (汪濤), Mr. Dai Daliang, Mr. Wang Xianglei and Mr. Zhang Jianwei

On 21 March 2014, Hilong Group of Companies Ltd., a wholly-owned subsidiary of the Company, as purchaser (the "Purchaser"), entered into an equity interest transfer agreement (the "Equity Transfer Agreement") with Mr. Zhang Jun, Mr. Wang Tao (汪濤), Mr. Dai Daliang, Mr. Wang Xianglei and Mr. Zhang Jianwei (collectively, the"Vendors"), under which the Purchaser agreed to acquire from each of the Vendors and each of the Vendors agreed to sell to the Purchaser 1% of their respective equity interest in Hilong Oil Service & Engineering Co., Ltd. (海隆石油技術服務有限公司) ("Hilong Oil Service"). The Board considers that the acquisition of the remaining 5% equity interest in Hilong Oil Service is beneficial to the Company as the acquisition allows the Company to have full control of Hilong Oil Service, which would enhance the efficiency in carrying out the Company's business decisions and development strategies in respect of Hilong Oil Service and to streamline the administrative procedures of Hilong Oil Service.

Mr. Zhang Jun and Mr. Wang Tao (汪濤) are executive directors of the Company and Mr. Dai Daliang is director of certain subsidiaries of the Company. Accordingly, each of Mr. Zhang Jun, Mr. Wang Tao (汪濤) and Mr. Dai Daliang is a connected person of the Company and the acquisition contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company.

The consideration for each of the 1% equity interest in Hilong Oil Service was RMB972,000, and the aggregate consideration for the acquisition of 5% equity interest in Hilong Oil Service contemplated under the Equity Interest Transfer Agreement is RMB4,860,000. The consideration has been determined by the parties after commercial and arm's length negotiations taking into account the net assets value of Hilong Oil Service as at 31 December 2013 in the amount of approximately RMB88,351,380.

Due to the same nature of the subject matter to be acquired by the Purchaser from each of the Vendors, the acquisition of 1% equity interest in Hilong Oil Service from each of the Vendors shall be aggregated under Rule 14A.81 (as amended with effect from 1 July 2014) of the Listing Rules. Upon aggregation, certain of the relevant percentage ratios for the acquisition of 5% equity interest in Hilong Oil Service exceeds 0.1% but less than 5%, the acquisition contemplated under the Equity Transfer Agreement is exempt from shareholders' approval requirement but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. For more particulars in relation to the Equity Transfer Agreement and the transaction contemplated thereunder, please refer to the announcement of the Company dated 21 March 2014.

D. Purchase of Property by Hilong Petropipe Co., Ltd. from Hilong Oil Pipe Co., Ltd.

On 23 June 2014, Hilong Petropipe Co., Ltd. (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into a purchase and sale agreement (the "Purchase and Sale Agreement") with Hilong Oil Pipe Co., Ltd. (the "Vendor"), under which the Purchaser agreed to acquire from the Vendor and the Vendor agreed to sell to the Purchaser certain property with a site area of approximately 326,264.40 square feet and two buildings with a rentable area of 53,285 square feet erected thereon (the "Property") held by the Vendor in Canada at a consideration of CAD9,900,000.

The Purchaser has been leasing the Property for use as its workshop, office and warehouse under certain tenancy agreements since 28 February 2011. The lease of the Property under the tenancy agreement dated 22 March 2013 between the Purchaser and the Vendor in respect of the Property was supposed to be expired on 29 February 2016. In view of the fact that the Purchaser has practical needs to continue the occupancy of the Property for its operational use, the Board considers that the purchase of the Property held by the Vendor is beneficial to the Company as it allows the Company to save rental costs from a long-term perspective and to make reconstruction and extension on the existing Property so as to make better use of the Property and increase its value in the long run.

Mr. Zhang Jun, the controlling shareholder and director of the Company, and his associates, hold the entire share capital in the Vendor. As such, the Vendor is an associate of Mr. Zhang Jun and thus a connected person of the Company. The purchase of the Property contemplated under the Purchase and Sale Agreement therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

The consideration of CAD9,900,000 has been determined by the parties after commercial and arm's length negotiations taking into account the market value of the Property as of March 28, 2014 in the amount of approximately CAD10,700,000 as set out in the valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

As certain percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the purchase of Property held by the Vendor are more than 0.1% but less than 5%, the purchase under the Purchase and Sale Agreement is exempt from shareholders' approval requirement but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. For more particulars in relation to the Purchase and Sale Agreement and the transaction contemplated thereunder, please refer to the announcement of the Company dated 23 June 2014.

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

A. Facility Agreement dated 16 September 2013

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

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

B. Facility Agreement dated 28 April 2014

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

The 2014 Facility Agreement contains specific performance obligations imposed on Mr. Zhang Jun to the effect that Mr. Zhang Jun to continue, during the term of the 2014 Facility Agreement, (i) to maintain, directly or indirectly, not less than 50% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board. A breach of any of such obligations will constitute an event of default under the 2014 Facility Agreement. For details of the 2014 Facility Agreement, please refer to the announcement of the Company dated 28 April 2014.

SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company, or any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2014.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

The Controlling Shareholders have confirmed their compliance with the non-competition undertakings under the Deed throughout the year of 2014. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders and are satisfied that the Controlling Shareholders have complied with the undertakings.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2014, except that in respect of code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. Zhang Jun.

Please refer to the Corporate Governance Report on pages 29 to 36 of this annual report.

AUDITOR

The financial statements for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers, certified public accountants. A resolution for re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Zhang Jun
Chairman

Hong Kong, 20 March 2015

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HILONG HOLDING LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 151, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2015

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,856,379**	1,614,236
Lease prepayments	7	**92,821**	94,956
Intangible assets	8	**159,377**	72,863
Investments accounted for using equity method	9	**56,660**	71,176
Deferred income tax assets	11	**109,355**	99,136
Other long-term assets	10	**799**	61,019
		3,275,391	2,013,386
Current assets			
Inventories	13	**840,540**	737,725
Trade and other receivables	14	**1,879,166**	1,534,411
Derivative financial instruments	16	**–**	1,007
Restricted cash	15	**83,861**	129,847
Cash and cash equivalents	15	**548,057**	390,889
		3,351,624	2,793,879
Total assets		**6,627,015**	4,807,265
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	17	**141,972**	141,897
Other reserves	18	**1,117,187**	1,102,061
Retained earnings			
– Proposed final dividend	30	**66,914**	102,677
– Others		**1,711,176**	1,384,742
Currency translation differences		**(118,809)**	(76,048)
		2,918,440	2,655,329
Non-controlling interests		**224,809**	218,258
Total equity		**3,143,249**	2,873,587

The notes on pages 64 to 151 are an integral part of these consolidated financial statements.

		As at 31 December	
	Note	**2014 RMB'000**	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	**1,629,961**	506,676
Deferred income tax liabilities	*11*	**44,448**	76,872
Derivative financial instruments	*16*	**2,406**	3,668
Deferred revenue	*20*	**23,578**	22,839
		1,700,393	610,055
Current liabilities			
Trade and other payables	*21*	**942,450**	661,248
Current income tax liabilities		**6,953**	7,987
Borrowings	*19*	**832,612**	654,004
Derivative financial instruments	*16*	**1,236**	323
Deferred revenue	*20*	**122**	61
		1,783,373	1,323,623
Total liabilities		**3,483,766**	1,933,678
Total equity and liabilities		**6,627,015**	4,807,265
Net current assets		**1,568,251**	1,470,256
Total assets less current liabilities		**4,843,642**	3,483,642

The notes on pages 64 to 151 are an integral part of these consolidated financial statements.

The financial statements on pages 57 to 151 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf.

Zhang Jun	**Ji Min**
Director	*Director*

BALANCE SHEET

As at 31 December 2014

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*12*	**38,550**	23,864
Current assets			
Trade and other receivables	*14*	**3,243,884**	1,946,694
Cash and cash equivalents	*15*	**43,580**	9,501
		3,287,464	1,956,195
Total assets		**3,326,014**	1,980,059
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*17*	**141,972**	141,897
Other reserves	*18*	**1,205,979**	1,189,425
Retained earnings			
– Proposed final dividends	*30*	**66,914**	102,677
– Others		**19,142**	183
Total equity		**1,434,007**	1,434,182
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	**1,629,961**	484,676
Current liabilities			
Trade and other payables	*21*	**543**	232
Borrowings	*19*	**261,503**	60,969
		262,046	61,201
Total liabilities		**1,892,007**	545,877
Total equity and liabilities		**3,326,014**	1,980,059
Net current assets		**3,025,418**	1,894,994
Total assets less current liabilities		**3,063,968**	1,918,858

The notes on pages 64 to 151 are an integral part of these consolidated financial statements.

The financial statement on pages 57 to 151 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf.

Zhang Jun
Director

Ji Min
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

		Year ended 31 December	
	Note	**2014** **RMB'000**	2013 RMB'000
Revenue	*5*	**2,575,986**	2,452,358
Cost of sales	*22*	**(1,555,407)**	(1,464,407)
Gross profit		**1,020,579**	987,951
Selling and marketing expenses	*22*	**(138,755)**	(105,895)
Administrative expenses	*22*	**(331,469)**	(279,610)
Other income	*25*	**5,909**	1,945
Other losses – net	*26*	**(20,472)**	(100,197)
Operating profit		**535,792**	504,194
Finance income	*27*	**13,068**	8,467
Finance costs	*27*	**(90,098)**	(71,224)
Finance costs – net		**(77,030)**	(62,757)
Share of profit of investments accounted for using equity method	*9*	**2,947**	768
Profit before income tax		**461,709**	442,205
Income tax expense	*28*	**(46,535)**	(71,696)
Profit for the year		**415,174**	370,509
Profit attributable to:			
Equity owners of the Company		**397,692**	344,630
Non-controlling interests		**17,482**	25,879
		415,174	370,509
Earnings per share attributable to the equity owners of the Company during the year (expressed in RMB per share)			
Basic earnings per share	*29*	**0.2345**	0.2073
Diluted earnings per share	*29*	**0.2329**	0.2055
The notes on pages 64 to 151 are an integral part of these consolidated financial statements.			
Dividends	*30*	**66,914**	102,677

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Profit for the year	**415,174**	370,509
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(42,761)**	(39,339)
Other comprehensive income for the year, net of tax	**(42,761)**	(39,339)
Total comprehensive income for the year	**372,413**	331,170
Attributable to:		
Equity owners of the Company	**354,931**	305,291
Non-controlling interests	**17,482**	25,879
	372,413	331,170

The notes on pages 64 to 151 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

		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 2013		133,613	774,039	1,246,633	(36,709)	2,117,576	187,858	2,305,434
Comprehensive income								
Profit for the year		–	–	344,630	–	344,630	25,879	370,509
Other comprehensive income								
Currency translation differences		–	–	–	(39,339)	(39,339)	–	(39,339)
Total comprehensive income for the year		–	–	344,630	(39,339)	305,291	25,879	331,170
Appropriation to statutory reserve	*18(a)*	–	5,137	(5,137)	–	–	–	–
Transactions with owners								
Issue of ordinary shares in connection with conversion of convertible bonds	*17(b), 19(b)*	7,732	305,954	–	–	313,686	–	313,686
Pre-IPO share option plan	*18(b)*	–	3,539	–	–	3,539	–	3,539
Exercise of share options	*17(a), 18(b)*	552	13,775	–	–	14,327	–	14,327
Non-controlling interests arising on business combination	*34(c)*	–	–	–	–	–	10,683	10,683
Acquisition of additional interests in a subsidiary	*33*	–	(383)	–	–	(383)	(1,177)	(1,560)
Dividends in respect of 2012	*30*	–	–	(98,707)	–	(98,707)	–	(98,707)
Dividends to non-controlling interests of subsidiaries		–	–	–	–	–	(4,985)	(4,985)
As at 31 December 2013		141,897	1,102,061	1,487,419	(76,048)	2,655,329	218,258	2,873,587
As at 1 January2014		**141,897**	**1,102,061**	**1,487,419**	**(76,048)**	**2,655,329**	**218,258**	**2,873,587**
Comprehensive income								
Profit for the year		**–**	**–**	**397,692**	**–**	**397,692**	**17,482**	**415,174**
Other comprehensive income								
Currency translation differences		**–**	**–**	**–**	**(42,761)**	**(42,761)**	**–**	**(42,761)**
Total comprehensive income for the year		**–**	**–**	**397,692**	**(42,761)**	**354,931**	**17,482**	**372,413**
Appropriation to statutory reserve	*18(a)*	**–**	**3,089**	**(3,089)**	**–**	**–**	**–**	**–**
Transactions with owners								
Pre-IPO share option plan	*18(b)*	**–**	**3,092**	**–**	**–**	**3,092**	**–**	**3,092**
2013 Share Option Scheme	*18(b)*	**–**	**11,594**	**–**	**–**	**11,594**	**–**	**11,594**
Exercise of share options	*17(a), 18(b)*	**75**	**1,868**	**–**	**–**	**1,943**	**–**	**1,943**
Acquisition of additional interests in subsidiaries	*33*	**–**	**(4,517)**	**–**	**–**	**(4,517)**	**(10,931)**	**(15,448)**
Dividends in respect of 2013	*30*	**–**	**–**	**(103,932)**	**–**	**(103,932)**	**–**	**(103,932)**
As at 31 December 2014		**141,972**	**1,117,187**	**1,778,090**	**(118,809)**	**2,918,440**	**224,809**	**3,143,249**

The notes on pages 64 to 151 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

		Year ended 31 December	
	Note	**2014 RMB'000**	2013 RMB'000
Cash flow from operating activities			
Cash generated from operations	*31(a)*	**442,173**	414,049
Interest paid		**(89,195)**	(89,783)
Income tax paid		**(92,244)**	(150,244)
Net cash generated from operating activities		**260,734**	174,022
Cash flow used in investing activities			
Proceeds from disposal of property, plant and equipment	*31(b)*	**1,583**	2,685
Investments in joint ventures	*9(b)*	**–**	(24,500)
Purchases of property, plant and equipment		**(1,239,235)**	(458,539)
Purchases of lease prepayments		**–**	(4,485)
Purchases of intangible assets		**(4,884)**	(63)
Acquisition of subsidiaries, net of cash acquired	*34*	**(79,317)**	(17,703)
Dividends received		**1,875**	1,944
Net cash used in investing activities		**(1,319,978)**	(500,661)
Cash flows from financing activities			
Proceeds from borrowings		**2,038,498**	1,136,589
Repayments of borrowings		**(715,540)**	(705,544)
Dividends paid to non-controlling interests of subsidiaries		**(924)**	(4,061)
Dividends paid to the then equity owner of the subsidiary	*35(c)*	**(9,470)**	–
Proceeds from share options exercised	*18(b)*	**1,943**	14,327
Acquisition of additional interests in subsidiaries	*33*	**(3,922)**	(1,560)
Dividends	*30*	**(103,932)**	(98,707)
Net cash inflow/(outflow) arising from security deposit for bank borrowings		**6,601**	(18,361)
Net cash generated from financing activities		**1,213,254**	322,683
Net increase/(decrease) in cash and cash equivalents		**154,010**	(3,956)
Exchange gains/(losses) on cash and cash equivalents		**3,158**	(9,117)
Cash and cash equivalents at beginning of the year		**390,889**	403,962
Cash and cash equivalents at end of the year		**548,057**	390,889

The notes on pages 64 to 151 are an integral part of these consolidated financial statements.

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 the 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 drilling equipment and coating materials, and provision of coating, oilfield and offshore engineering 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 consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 20 March 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

(a) *New amendments and interpretation adopted by the Group in 2014*

- Amendment to HKAS 32, "Financial instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a material impact on the consolidated financial statements.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the cash-generating units ("CGUs") which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of this amendment has no material impact on the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New amendments and interpretation adopted by the Group in 2014 (continued)

- Amendment to HKAS 39, "Financial instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to "over-the-counter" derivatives and the establishment of central counterparties. The Group has applied the amendment and there has been no material impact on the consolidated financial statements as a result.

- HK(IFRIC) 21, "Levies", sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 "Provisions". The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognized. The adoption of this new standard has no material impact on the consolidated financial statements.

There are no other new standards and amendments to standards and interpretations that are effective for the first time for the financial year beginning on 1 January 2014 that could be expected to have a material impact on the Group.

(b) New standards and amendments to standards issued but are not effective in 2014 and not yet adopted by the Group

- Amendment to HKAS 19 "Employee benefits" on defined benefit plans, effective for the accounting period beginning on or after 1 July 2014.

- Annual improvements 2012, effective for the accounting period beginning on or after 1 July 2014.

- Annual improvements 2013, effective for the accounting period beginning on or after 1 July 2014.

- 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 HKFRS 10 and HKAS 28 on 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 on equity method in separate financial statements, effective for the accounting period beginning on or after 1 January 2016.

- Annual improvements 2014, effective for the accounting period beginning on or after 1 January 2016.

- HKFRS 15 "Revenue from contracts with customers", effective for the accounting period beginning on or after 1 January 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and amendments to standards issued but are not effective in 2014 and not yet adopted by the Group (continued)

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

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

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

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

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

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

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

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

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

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates

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

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

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

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

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

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

2.4 Joint arrangements

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

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Joint arrangements (continued)

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group companies

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Foreign currency translation (continued)

(c) Group companies (continued)

- all resulting exchange differences are recognized in other comprehensive income or loss.

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instrument designated as hedges of such investments, are taken to shareholders' equity.

(d) Disposal of foreign operation and partial disposal

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

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

2.7 Property, plant and equipment

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

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

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

	Years
Freehold land	Nil
Buildings and facilities	5 to 40 years
Machinery and equipment	5 to 20 years
Office and electronic equipment	3 to 10 years
Vehicles	3 to 10 years
Leasehold improvements	5 to 10 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment (continued)

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

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

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

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

2.8 Lease prepayments

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

2.9 Intangible assets

(a) Goodwill

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

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

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

(b) Computer software

Acquired computer software license are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over periods ranging from 2 to 10 years.

(c) Proprietary technologies

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of non-financial assets

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

2.11 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

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

(b) Recognition and measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

(c) Offsetting financial instruments

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

(d) Impairment of financial assets

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Derivatives financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Derivatives financial instruments and hedging activities (continued)

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivatives instruments that do not qualify for hedge accounting are recognized immediately in the consolidated income statement.

2.13 Embedded derivatives

An embedded derivative is a component of a hybrid (consolidated) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the consolidated instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

- the hybrid (consolidated) instrument is not measured at fair value with changes in fair value recognized in the profit or loss.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognized in the consolidated income statement.

2.14 Inventories

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

2.15 Trade and other receivables

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

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

2.16 Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Restricted cash

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

2.18 Ordinary shares

Ordinary shares are classified as equity.

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

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

2.19 Trade and other payables

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

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

2.20 Borrowings and borrowing costs

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

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

The liability components of the convertible bonds (Note 2.21) are classified as borrowings. The amortisations of these borrowings using effective interest method are recognized in the consolidated income statement as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Borrowings and borrowing costs (continued)

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

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

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

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

2.21 Convertible bonds

Compound financial instrument issued by the Company represented the convertible bonds that can be converted to share capital at the option of the holder.

In the situation when the convertible bonds are denominated in a currency other than the Company's functional currency, the instrument comprises a host debt instrument denominated in a foreign currency and a conversion option to exchange a fixed number of the Company's own equity instrument for a fixed amount of cash that is denominated in a foreign currency. The conversion option is not an equity instrument, but an embedded derivative that is not closely related to the host debt instrument, because the risk inherent in the derivative and the host are dissimilar. Therefore, the conversion option is separated and classified as a derivative liability.

The embedded derivative is recognized initially at fair value. The host debt component at initial recognition is the difference between the consideration received and the fair value of the embedded derivative.

Subsequent to initial recognition, the embedded derivatives are carried at fair value. The liability component is measured at amortized cost using the effective interest method.

2.22 Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Current and deferred income tax (continued)

(b) *Deferred income tax*

Inside basis differences

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

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

Outside basis differences

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

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

(c) *Offsetting*

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

2.23 Employee benefits

(a) *Pension obligations*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Employee benefits (continued)

(b) Housing benefits

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

(c) Share-based payment transaction

The Group established equity-settled share option plans to recognize the contribution made by the directors and the employees of the Group. The fair value of the contributions received in exchange for the grant of the options is recognized as an expense on a straight-line basis over the vesting period of each tranche. These share options are measured at fair value at grant day. In addition, in some circumstances, the directors and the employees may provide services in advance of the grant date and therefore, the grant date fair value is estimated for the purpose of recognising the expense during the period between service commencement period and grant date.

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

The grant by the Company of options over its equity instrument to the employees of subsidiary undertaking in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the grant date fair value, is recognized over vesting period, as an increase to investment is subsidiary undertakings, with a corresponding credit to equity.

2.24 Provision and contingent liabilities

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

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

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

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

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

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

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

(b) Rendering of oilfield and pipe-laying services

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

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

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

(c) Rendering of coating and engineering modelling assessment service

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

(d) Interest income

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

(e) Dividend income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Government grants

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

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

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

2.27 Operating leases (as a lessee)

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

2.28 Dividend distribution

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

2.29 Research and development

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates in a number of countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD") and Hong Kong dollar ("HKD"). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. In both 2014 and 2013, the Group arranged a cross currency swap (Note 16(b)) to partially manage its exposure to USD from recognized assets and liabilities. In 2014, the Group also arranged foreign exchange forward contracts (Note 16(c)) to partially manage its exposure to USD from recognized assets. Nevertheless, both the cross currency swap and the foreign exchange forward contracts were not accounted for as hedging instruments as the conditions for hedge accounting were not met during the years.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2014, if USD and HKD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB62,988,000 higher/lower as a result of foreign exchange gain/losses (2013: RMB18,991,000 higher/lower as a result of foreign exchange gain/losses) on translation of USD or HKD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, and borrowings.

(ii) Cash flow and fair value interest rate risk

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

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

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 19. In 2014 and 2013, the Group managed certain of its cash flow interest-rate risk by using floating-to-fixed interest rate swaps (Note 16(a)). Such interest rate swaps had the economic effect of converting certain borrowings from floating rates to fixed rates. Nevertheless, the interest rate swaps were not accounted for as hedging instruments as the conditions for hedge accounting were not met during the years.

As at 31 December 2014, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB55,000 (2013: RMB86,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) *Credit risk (continued)*

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

Countparty	Rating	As at 31 December 2014 RMB'000	2013 RMB'000
HSBC*	AA-	**203,040**	128,859
China Construction Bank*	A	**89,629**	30,153
Agricultural Bank of China*	A	**57,835**	20,754
Shanghai Pudong Development Bank*	BBB+	**36,661**	16,498
Citi Bank*	A	**33,359**	5,481
Maybank*	A-	**31,364**	31,669
Bank of China*	A	**26,445**	32,375
Faysal Bank	N/A	**26,299**	1,384
Far Easten International Bank**	B1	**25,603**	113
Emirates Islamic Bank**	BAA1	**18,251**	10,059
Zenith Bank*	BB-	**16,138**	28,965

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

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

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

(c) *Liquidity risk*

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group 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 and the Company's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Group	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**
As at 31 December 2013					
Borrowings and interest payable	674,955	133,118	431,298	–	1,239,371
Trade and other payables (excluding advance from customers, interest payable, staff salaries and welfare payables and other tax liabilities)	579,980	–	–	–	579,980
Derivative financial instruments	3,917	3,577	1,870	–	9,364
	1,258,852	136,695	433,168	–	1,828,715

Company	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	**348,819**	**1,319,790**	**380,139**	**–**	**2,048,748**
Trade and other payables	**543**	**–**	**–**	**–**	**543**
	349,362	**1,319,790**	**380,139**	**–**	**2,049,291**
As at 31 December 2013					
Borrowings and interest payable	79,068	91,573	431,298	–	601,939
Trade and other payables	232	–	–	–	232
	79,300	91,573	431,298	–	602,171

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

The gearing ratios as at 31 December 2014 and 2013 are as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Total borrowings *(Note 19)*	**2,462,573**	1,160,680
Less: Cash and cash equivalents *(Note 15)*	**(548,057)**	(390,889)
Net debt	**1,914,516**	769,791
Total equity	**3,143,249**	2,873,587
Total capital	**5,057,765**	3,643,378
Gearing ratio	**37.85%**	21.13%

The increase in gearing ratio during the year ended 31 December 2014 was mainly due to the increase in borrowings. The Group expects the gearing ratio would be between 20% and 40% in future years.

3.3 Fair value estimation

The table below analyses 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 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2014 and 2013.

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

As at 31 December 2013	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Derivative financial instruments				
– current				
Cross currency swap	–	1,007	–	1,007
Financial liabilities				
Derivative financial instruments				
– non-current				
Interest rate swaps	–	3,668	–	3,668
Derivative financial instruments				
– current				
Interest rate swaps	–	323	–	323
	–	3,991	–	3,991

There were no transfers among levels during the years.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

(a) *Financial instruments in level 2*

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

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

Specific valuation techniques used to value financial instruments include:

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

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

(b) *Financial instruments in level 3*

The fair value of convertible bonds is determined using the binomial model, one of the option pricing methods. The valuation involves complex and subjective judgement and the Group's best estimates of the probability of occurrence of future events, such as fundamental changes, on the valuation date. The main inputs to this model include the underlying share price, the expected share volatility, the expected dividend yield, the risk free and risk interest rate.

A summary of changes in fair value of the level 3 derivative financial instrument for the year ended 31 December 2013 is described in Note 19(b). There was no change in valuation techniques during the year ended 31 December 2013. There was no derivative financial instrument in level 3 for the year ended 31 December 2014.

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category

Group

	As at 31 December 2014		As at 31 December 2013		
	Loans and receivables RMB'000	Total RMB'000	Loans and receivables RMB'000	Assets at fair value through the profit and loss RMB'000	Total RMB'000
Financial assets					
Current					
Trade and other receivables (excluding prepayments)	1,773,577	1,773,577	1,405,609	–	1,405,609
Derivative financial instruments	–	–	–	1,007	1,007
Restricted cash	83,861	83,861	129,847	–	129,847
Cash and cash equivalents	548,057	548,057	390,889	–	390,889
	2,405,495	2,405,495	1,926,345	1,007	1,927,352

	As at 31 December 2014			As at 31 December 2013		
	Liabilities at fair value through the profit and loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000	Liabilities at fair value through the profit and loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities						
Non-current						
Borrowings	–	1,629,961	1,629,961	–	506,676	506,676
Derivative financial instruments	2,406	–	2,406	3,668	–	3,668
	2,406	1,629,961	1,632,367	3,668	506,676	510,344
Current						
Trade and other payables (excluding advance from customers, staff salaries and welfare payables and other tax liabilities)	837,650	–	837,650	–	582,778	582,778
Borrowings	–	832,612	832,612	–	654,004	654,004
Derivative financial instruments	1,236	–	1,236	323	–	323
	838,886	832,612	1,671,498	323	1,236,782	1,237,105
	841,292	2,462,573	3,303,865	3,991	1,743,458	1,747,449

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category (continued)

Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Financial assets		
Current		
Loans and receivables		
Trade and other receivables (excluding prepayments)	**3,243,725**	1,926,595
Cash and cash equivalents	**43,580**	9,501
	3,287,305	1,936,096

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Financial liabilities		
Non-current		
Loans and receivables		
Borrowings	**1,629,961**	484,676
Current		
Loans and receivables		
Borrowings	**261,503**	60,969
Trade and other payables (excluding advance from customers, staff salaries and welfare payables and other tax liabilities)	**543**	232
	262,046	61,201
	1,892,007	545,877

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Current and deferred income taxes

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

(b) Useful lives of property, plant and equipment

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

(c) Impairment for receivables

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

Provision for impairment of trade and other receivables is determined based on the evaluation of collectability and the time value of the proceeds from settlements of trade and other receivables. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the past collection history of each counterparty, the current creditworthiness, and the current market condition. In the opinion of the Company's directors, the major customers of the Group are state-owned companies, which account for over 50% of the Group's overdue receivables. Based on the prior dealing history, current financial position of these companies and prevailing market conditions, the Group did not expect any significant losses from non-performance by these countparties. At each balance sheet date, the Group also assesses the time value of the proceeds from settlements of trade and other receivables based on the current expectation of the collection period, and the difference between the carrying amount and the present value of the estimated future cash flows is not expected to be significant. Accordingly, the Group did not set aside further impairment provision for receivables.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Estimated write-downs of inventories

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

(e) Fair value of derivative financial instruments

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for the derivative financial instruments that are not traded in active market. The carrying amount of derivative financial instruments would be changed if the discount rates used in the discount cash flow analysis are changed.

(f) Impairment assessment of goodwill

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

5 SEGMENT INFORMATION

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

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

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

5 SEGMENT INFORMATION (continued)

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

During the year, the management restructured the existing business segments to achieve higher operation efficiency. The provision of oil country tubular goods ("OCTG") coating services, which were previously reported in the coating materials and services segment, has been moved to the drill pipes and related products segment. After this restructuring, the drill pipes and related products segment was re-named to oilfield equipment manufacturing and services segment and the coating materials and services segment was re-named to line pipe technology and services segment. The comparatives have been reclassified to conform with the current year's classification.

The Group started up offshore engineering services business and entered into an agreement to purchase a pipe-lay barge on 30 December 2013. For the year ended 31 December 2014, the offshore engineering services segment was separately reported as it met the quantitative thresholds required by HKFRS 8 for reportable segments.

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

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

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2014 and 2013 are set out as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**1,270,405**	1,214,418
Line pipe technology and services	**271,644**	365,351
Oilfield services	**1,032,239**	872,589
Offshore engineering service	**1,698**	–
	2,575,986	2,452,358

5 SEGMENT INFORMATION (continued)

(b) Segment information

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

	For the year ended 31 December 2014				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,321,998	363,405	1,032,239	2,037	2,719,679
Inter-segment sales	(51,593)	(91,761)	–	(339)	(143,693)
Revenue from external customers	1,270,405	271,644	1,032,239	1,698	2,575,986
Results					
Segment gross profit	574,873	87,655	356,853	1,198	1,020,579
Segment profit/(loss)	253,641	52,884	238,865	(9,598)	535,792
Finance income					13,068
Finance costs					(90,098)
Share of profit of investments accounted for using equity method					2,947
Profit before income tax					461,709
Other information					
Depreciation of property, plant and equipment	58,252	11,093	92,170	140	161,655
Amortization of lease prepayments	1,231	904	–	–	2,135
Amortization of intangible assets	359	208	–	134	701
Capital expenditure	117,871	57,756	139,756	980,975	1,296,358

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

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2013 is as follows:

	For the year ended 31 December 2013				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,288,604	482,070	872,589	–	2,643,263
Inter-segment sales	(74,186)	(116,719)	–	–	(190,905)
Revenue from external customers	1,214,418	365,351	872,589	–	2,452,358
Results					
Segment gross profit	570,373	99,143	318,435	–	987,951
Segment profit	225,074	58,022	221,098	–	504,194
Finance income					8,467
Finance costs					(71,224)
Share of profit of investments accounted for using equity method					768
Profit before income tax					442,205
Other information					
Depreciation of property, plant and equipment	50,145	8,980	74,376	–	133,501
Amortization of lease prepayments	1,156	902	–	–	2,058
Amortization of intangible assets	296	242	3	–	541
Capital expenditure	53,888	64,958	339,641	60,969	519,456

	As at 31 December 2013				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	2,660,949	537,642	1,476,529	60,969	4,736,089
Investments accounted for using equity method					71,176
Total assets					4,807,265
Total liabilities	1,524,696	205,965	203,017	–	1,933,678

5 SEGMENT INFORMATION (continued)

(c) Geographical segments

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
North and South America	**903,701**	604,049
The PRC	**896,953**	1,219,740
Russia, Central Asia and East Europe	**285,460**	240,057
West Africa	**220,091**	219,947
Middle East	**152,194**	85,781
South Asia	**114,000**	61,243
Others	**3,587**	21,541
	2,575,986	2,452,358

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

	Carrying amount of segment assets As at 31 December	
	2014	2013
	RMB'000	RMB'000
The PRC	**2,055,470**	902,286
North and South America	**479,842**	390,170
West Africa	**217,704**	238,572
Middle East	**127,106**	132,187
South Asia	**123,552**	141,653
Russia, Central Asia and East Europe	**104,903**	38,156
	3,108,577	1,843,024

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
The PRC	**1,193,609**	275,846
North and South America	**172,366**	58,154
Russia, Central Asia and East Europe	**87,516**	7,995
West Africa	**4,408**	129,276
Middle East	**1,224**	921
South Asia	**685**	141,653
	1,459,808	613,845

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Land, buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2013							
Cost	296,698	1,043,587	31,327	23,442	16,132	170,133	1,581,319
Accumulated depreciation	(52,216)	(244,294)	(14,165)	(14,648)	(2,252)	–	(327,575)
Net book amount	244,482	799,293	17,162	8,794	13,880	170,133	1,253,744
Year ended 31 December 2013							
Opening net book amount	244,482	799,293	17,162	8,794	13,880	170,133	1,253,744
Transferred from construction in progress	24,478	207,672	–	–	–	(232,150)	–
Additions	1,456	42,467	4,801	2,285	1,707	401,223	453,939
Acquisition of Nantong Hilong Steel Pipe Co., Ltd. ("Nantong Hilong") *(Note 34(c))*	25,838	57,256	77	183	–	208	83,562
Disposals	(313)	(806)	(176)	(421)	–	–	(1,716)
Depreciation *(Note 22)*	(11,647)	(112,879)	(4,554)	(2,791)	(1,630)	–	(133,501)
Currency translation differences	(1,127)	(34,957)	(1,525)	(289)	(667)	(3,227)	(41,792)
Closing net book amount	283,167	958,046	15,785	7,761	13,290	336,187	1,614,236
At 31 December 2013							
Cost	346,828	1,303,316	33,969	25,035	17,061	336,187	2,062,396
Accumulated depreciation	(63,661)	(345,270)	(18,184)	(17,274)	(3,771)	–	(448,160)
Net book amount	283,167	958,046	15,785	7,761	13,290	336,187	1,614,236
Year ended 31 December 2014							
Opening net book amount	**283,167**	**958,046**	**15,785**	**7,761**	**13,290**	**336,187**	**1,614,236**
Transferred from construction in progress	**57,687**	**146,173**	**1,310**	**–**	**599**	**(205,769)**	**–**
Additions	**74,012**	**1,183**	**4,698**	**1,964**	**241**	**1,270,345**	**1,352,443**
Acquisition of Texas Internal Pipe Coating, LLC and the related property, plant and equipment ("US Coating Business") *(Note 34(a))*	**18,428**	**15,302**	**–**	**–**	**–**	**–**	**33,730**
Acquisition of Hilong Temerso Co., Ltd. and Technomash LLC ("Russia Coating Business") *(Note 34(b))*	**20,569**	**20,700**	**438**	**52**	**–**	**79**	**41,838**
Disposals	**–**	**(1,973)**	**(186)**	**(20)**	**–**	**–**	**(2,179)**
Depreciation *(Note 22)*	**(16,555)**	**(136,242)**	**(4,982)**	**(2,571)**	**(1,305)**	**–**	**(161,655)**
Currency translation differences	**(1,208)**	**(19,659)**	**(1,079)**	**(163)**	**(638)**	**713**	**(22,034)**
Closing net book amount	**436,100**	**983,530**	**15,984**	**7,023**	**12,187**	**1,401,555**	**2,856,379**
At 31 December 2014							
Cost	**516,326**	**1,449,620**	**38,330**	**26,319**	**17,190**	**1,401,555**	**3,449,340**
Accumulated depreciation	**(80,226)**	**(466,090)**	**(22,346)**	**(19,296)**	**(5,003)**	**–**	**(592,961)**
Net book amount	**436,100**	**983,530**	**15,984**	**7,023**	**12,187**	**1,401,555**	**2,856,379**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2014, no machinery and equipment (31 December 2013: certain buildings and facilities with a carrying amount of RMB137,308,000) was pledged as collaterals for the Group's borrowings (Note 19).

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cost of sales	**151,708**	122,878
Administrative expenses	**9,481**	10,343
Selling and marketing expenses	**466**	280
	161,655	133,501

As at 31 December 2014, interest capitalized in assets under construction amounted to RMB24,339,000 (31 December 2013: Nil). The capitalised rate of borrowings was 4.89% (2013: Nil).

7 LEASE PREPAYMENTS

Group

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Outside of Hong Kong:		
– Lease of between 10 to 50 years	**92,821**	94,956

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Opening net book value	**94,956**	85,566
Additions	**–**	4,485
Acquisition of Nantong Hilong *(Note 34(c))*	**–**	6,963
Amortization charges *(Note 22)*	**(2,135)**	(2,058)
Closing net book value	**92,821**	94,956

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

8 INTANGIBLE ASSETS

Group

	Goodwill (a)	Proprietary technologies	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013				
Cost	66,861	4,861	4,103	75,825
Accumulated amortization	–	(1,036)	(1,598)	(2,634)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	66,861	1,728	2,505	71,094
Year ended 31 December 2013				
Opening net book amount	66,861	1,728	2,505	71,094
Additions	–	–	63	63
Acquisition of Nantong Hilong *(Note 34(c))*	3,864	–	–	3,864
Amortization charge *(Note 22)*	–	(218)	(323)	(541)
Currency translation differences	(1,617)	–	–	(1,617)
Closing net book amount	69,108	1,510	2,245	72,863
At 31 December 2013				
Cost	69,108	4,861	4,166	78,135
Accumulated amortization	–	(1,254)	(1,921)	(3,175)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	69,108	1,510	2,245	72,863
Year ended 31 December 2014				
Opening net book amount	**69,108**	**1,510**	**2,245**	**72,863**
Additions	**–**	**–**	**4,884**	**4,884**
Acquisition of US Coating Business *(Note 34(a))*	**43,405**	**–**	**–**	**43,405**
Acquisition of Russia Coating Business *(Note 34(b))*	**44,477**	**–**	**–**	**44,477**
Amortization charge *(Note 22)*	**–**	**(185)**	**(516)**	**(701)**
Currency translation differences	**(5,556)**	**–**	**5**	**(5,551)**
Closing net book amount	**151,434**	**1,325**	**6,618**	**159,377**
At 31 December 2014				
Cost	**151,434**	**4,861**	**9,050**	**165,345**
Accumulated amortization	**–**	**(1,439)**	**(2,432)**	**(3,871)**
Impairment provision	**–**	**(2,097)**	**–**	**(2,097)**
Net book amount	**151,434**	**1,325**	**6,618**	**159,377**

8 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill

The goodwill addition arose from the acquisition of additional equity interest in following entities:

Entity name	Year	Amount (RMB'000)
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	2008	7,493
Shanghai Boteng Welding Consumable Co., Ltd.	2008	3,710
Hilong Petroleum Pipe Company	2011	48,454
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	2011	3,928
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	2011	1,834
Nantong Hilong	2013	3,864
US Coating Business	2014	43,238
Russia Coating Business	2014	38,913
		151,434

Goodwill is allocated to the Group's CGUs identified according to business segments. During the year ended 31 December 2014, the management restructured the existing business segments to achieve higher operating efficiency. The provision of OCTG coating services, which was previously reported in coating materials and services segment, has been moved to the drill pipes and related products segment (Note 5). Part of the Company's goodwill of RMB16,965,000, which used to be allocated to the coating materials and services segment as at 31 December 2013 and related to the OCTG coating services, is consequently reallocated to the oilfield equipment manufacturing and services segment.

A segment level summary of goodwill is presented below:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Oilfiled equipment manufacturing and services	**151,434**	69,108

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

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Gross margin	**45%**	47%
Discount rate	**16%**	16%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2014.

8 INTANGIBLE ASSETS (continued)

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cost of sales	**2**	2
Administrative expenses	**699**	539
	701	541

9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Group

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Associates	**32,094**	29,138
Joint ventures	**24,566**	42,038
	56,660	71,176

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

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Associates	**5,733**	5,301
Joint ventures	**(2,786)**	(4,533)
	2,947	768

(a) Investments in associates – Group

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Beginning of year	**29,138**	53,683
Share of results of associates	**5,733**	5,301
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in Nantong Hilong *(Note 34(c))*	**–**	(27,254)
Dividends declared	**(2,777)**	(2,592)
	32,094	29,138

9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

(a) Investments in associates – Group (continued)

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

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December 2014	2013	Principal activities
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	12 February 2007, Shandong, the PRC	RMB20,000,000	**30%**	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	22 November 2010, Liaoaning, the PRC	RMB15,000,000	**30%**	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	20 November 2004, Shanxi, the PRC	RMB18,000,000	**22.95%**	22.95%	Coating service provision

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

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenues RMB'000	Profit RMB'000
As at and year ended 31 December 2014	**106,774**	**74,680**	**32,094**	**99,408**	**5,733**
As at and year ended 31 December 2013	62,726	33,588	29,138	72,538	5,301

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

(b) Investments in joint ventures – Group

	Year ended 31 December 2014 RMB'000	2013 RMB'000
Beginning of year	**42,038**	21,828
Investments in a new joint venture	**–**	24,500
Share of results of the joint ventures	**(2,786)**	(4,533)
Currency translation differences	**(5,439)**	–
Realization of unrealized profit	**1,240**	243
Transfer from investment in a joint venture to investment in a subsidiary upon acquisition of additional equity interest in Hilong Temerso Co., Ltd. ("Hilong Temerso") *(Note 34(b))*	**(10,487)**	–
End of year	**24,566**	42,038

9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

(b) Investments in joint ventures – Group (continued)

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

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December 2014	2013	Principal activities
Hilong Temerso*	23 August 2011, Russia	RBL1,000,000	–	56%	Coating service provision
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	24 July 2013, the PRC	RMB 50,000,000	**49%**	49%	Coating service provision

* The Group accounted for investment in Hilong Temerso as an investment in a joint venture in 2013. In 2014, the Group acquired further equity interests in this company. After the acquisition, this company became a subsidiary of the Group (Note 34(b)).

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenues RMB'000	Losses RMB'000
As at and year ended 31 December 2014	**39,060**	**14,494**	**24,566**	**8,344**	**2,786**
As at and year ended 31 December 2013	46,363	4,325	42,038	7,032	4,533

There was no contingent liability relating to the Group's interests in its joint ventures.

10 OTHER LONG-TERM ASSETS

	As at 31 December 2014 RMB'000	2013 RMB'000
Prepayment for acquisition of a vessel	–	60,969
Long-term prepaid expenses	**799**	50
	799	61,019

On 30 December 2013, Hilong Marine Engineering (Hong Kong) Limited, a wholly owned subsidiary of the Group, entered into an agreement with Zhenhua ZHPL3 Limited to purchase a pipe-lay barge (the "Vessel"), at a purchase consideration of USD163.6 million. The Vessel is to be used for offshore oilfield service business. Hilong Marine Engineering (Hong Kong) Limited made a prepayment of USD10,000,000 (equivalent to RMB60,969,000) in 2013. As at 31 December 2014, the Vessel was under construction (Note 6).

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Group

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

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**48,518**	47,482
– to be recovered after more than 12 months	**60,837**	51,654
	109,355	99,136
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(44,448)**	(76,872)

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

Deferred income tax assets	Tax losses and tax credits carried forward RMB'000	Impairment provision on assets RMB'000	Accruals RMB'000	Unrealized profit (a) RMB'000	Allowance related to capitalized expenditure RMB'000	Others RMB'000	Total RMB'000
At 1 January 2013	12,780	6,270	2,195	73,407	–	1,747	96,399
Credit/(charged) to the consolidated income statement *(Note 28)*	6,599	(465)	558	(7,248)	5,319	2,465	7,228
At 31 December 2013	19,379	5,805	2,753	66,159	5,319	4,212	103,627
Acquisition of Russia Coating Business *(Note 34(b))*	4,755	–	–	–	–	–	4,755
Credit/(charged) to the consolidated income statement *(Note 28)*	(1,723)	843	(69)	9,732	76	(1,629)	7,230
At 31 December 2014	**22,411**	**6,648**	**2,684**	**75,891**	**5,395**	**2,583**	**115,612**

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

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize cumulative deferred income tax assets of RMB33,969,000 as at 31 December 2014 (31 December 2013: RMB22,989,000) in respect of the accumulated tax losses of certain subsidiaries. Part of the accumulated tax losses amounting to RMB132,745,000 will expire within year ending 31 December 2015 to year ending 31 December 2025. The remaining portion of the accumulated tax losses amounting to RMB17,528,000 will be carried forward indefinitely.

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries *(Note 28)*	Gain on remeasuring existing equity interest in certain associate and joint ventures on acquisition	Fair value adjustments on assets and liabilities upon acquisition	Accelerated tax depreciation expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	(95,872)	(2,895)	–	–	(98,767)
Credit/(charged) to the consolidated income statement *(Note 28)*	19,000	(486)	(1,110)	–	17,404
At 31 December 2013	(76,872)	(3,381)	(1,110)	–	(81,363)
Acquisition of US Coating Business *(Note 34(a))*	–	–	–	(2,755)	(2,755)
Acquisition of Russia Coating Business *(Note 34(b))*	–	–	(4,032)	–	(4,032)
Credit to the consolidated income statement *(Note 28)*	38,436	–	58	(1,049)	37,445
At 31 December 2014	**(38,436)**	**(3,381)**	**(5,084)**	**(3,804)**	**(50,705)**

12 INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Investments, at cost:		
Unlisted shares	**–**	–
Capital contribution relating to share-based payment	**38,550**	23,864
	38,550	23,864

(a) Detail of the subsidiaries of the Group as at 31 December 2014 and 2013 are set out in Note 36.

(b) The grant by the Company of options over its equity instruments to the employees of subsidiaries undertakings in the Group is treated as a capital contribution (Note 18(b)).

13 INVENTORIES

Group

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Raw materials	**254,335**	224,757
Work in progress	**62,740**	33,566
Finished goods	**494,844**	465,256
Packing materials	**1,332**	452
Low value consumables	**27,289**	13,694
	840,540	737,725

The cost of inventories recognized as cost of sales amounted to approximately RMB864,205,000 for the year ended 31 December 2014 (2013: RMB890,216,000).

During the year ended 31 December 2014, the Group reversed inventory provision write-down brought forward from prior years of RMB236,000 (2013: RMB4,923,000) because certain obsolete raw materials were subsequently used in the production. The amount reversed has been included in "cost of sales" in the consolidated income statement (Note 22). As at 31 December 2014, inventory provision relating to both raw materials and finised goods amounted to RMB11,983,000 (31 December 2013: RMB12,219,000).

14 TRADE AND OTHER RECEIVABLES

Group

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Bills receivable *(a)*	**70,397**	105,781
Trade receivables *(b)*		
– Due from related parties *(Note 35(c))*	**68,052**	30,821
– Due from third parties	**1,492,739**	1,159,957
Less: provision for impairment of receivables (d)	**(25,793)**	(20,000)
Trade receivables – net	**1,534,998**	1,170,778
Other receivables *(c)*	**166,632**	128,402
Prepayments	**105,589**	128,802
Dividend receivables *(Note 35(c))*	**1,550**	648
Trade and other receivables – net	**1,879,166**	1,534,411

As at 31 December 2014 and 2013, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

14 TRADE AND OTHER RECEIVABLES (continued)

Group (continued)

As at 31 December 2014 and 2013, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
– RMB	**1,118,743**	965,127
– USD	**502,321**	441,765
– AED	**77,753**	12,975
– CAD	**57,016**	73,744
– NGN	**38,269**	6,551
– KZT	**35,310**	24,135
– RUB	**26,682**	–
– COP	**22,755**	4,017
– HKD	**317**	6,097
	1,879,166	1,534,411

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

(b) The ageing analysis of trade receivables, before provision for impairment, as at 31 December 2014 and 2013 was as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**1,012,791**	804,505
– Over 90 days and within 180 days	**187,679**	121,358
– Over 180 days and within 360 days	**129,314**	115,478
– Over 360 days and within 720 days	**168,441**	91,221
– Over 720 days	**62,566**	58,216
	1,560,791	1,190,778

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

As at 31 December 2014, trade receivables of RMB25,793,000 (31 December 2013: RMB20,000,000) were impaired and fully provided for impairment losses. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

14 TRADE AND OTHER RECEIVABLES (continued)

Group (continued)

(b) (continued)

As at 31 December 2014, trade receivables of RMB522,207,000 (31 December 2013: RMB366,273,000) were past due but not impaired. These mainly relate to the customers that are state-owned companies in the PRC which have good credit reputation and trading records with the Group. Based on the past experiences, the directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
– Over 90 days and within 180 days	**187,679**	121,358
– Over 180 days and within 360 days	**129,314**	115,478
– Over 360 days and within 720 days	**168,441**	91,221
– Over 720 days	**36,773**	38,216
	522,207	366,273

(c) Details of other receivables are as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Due from related parties *(Note 35(c))*	**88,363**	39,999
Deposits	**31,631**	5,179
Staff advances	**11,847**	13,945
Value added tax to be refunded	**10,044**	38,648
Due from non-controlling interests	**–**	10,400
Others	**24,747**	20,231
	166,632	128,402

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
At beginning of the year	**(20,000)**	(23,383)
Additional provision *(Note 22)*	**(5,793)**	(4,454)
Write off of receivables	**–**	4,810
Reversal of provision *(Note 22)*	**–**	3,027
At the end of the year	**(25,793)**	(20,000)

14 TRADE AND OTHER RECEIVABLES (continued)

Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Other receivables due from related parties *(Note 35(c))*	**2,515,328**	1,333,198
Dividends receivable *(Note 35(c))*	**728,397**	593,397
Prepayments	**159**	20,099
Trade and other receivables – net	**3,243,884**	1,946,694

As at 31 December 2014 and 2013, the fair values of the trade and other receivables of the Company, other than prepayments which are not financial assets, approximated their carrying amounts.

The ageing analysis of trade and other receivables as at 31 December 2014 and 2013 was as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade and other receivables, gross		
– Within 360 days	**2,650,487**	1,569,297
– Over 360 days and within 720 days	**593,397**	377,397
	3,243,884	1,946,694

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
– USD	**2,360,194**	1,087,938
– RMB	**758,998**	763,761
– HKD	**124,692**	94,995
	3,243,884	1,946,694

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Cash at bank and in hand *(a)*	**631,918**	520,736
Less: Restricted cash *(b)*	**(83,861)**	(129,847)
Cash and cash equivalents	**548,057**	390,889

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

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Cash at bank and in hand are denominated in:		
– RMB	**328,339**	317,301
– USD	**195,235**	117,937
– CAD	**52,706**	28,417
– HKD	**19,923**	35,186
– RUB	**15,801**	2,121
– NGN	**6,564**	10,602
– PKR	**4,812**	933
– AED	**4,454**	2,008
– KZT	**3,433**	3,866
– COP	**608**	2,322
– EURO	**43**	43
	631,918	520,736
Restricted cash is denominated in:		
– RMB	**76,127**	112,243
– USD	**7,590**	17,534
– KZT	**144**	70
	83,861	129,847

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

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

Company

As at 31 December 2014, cash and cash equivalents of the Company are not restricted and are denominated in HKD of RMB27,720,000, USD of RMB15,805,000 and RMB of RMB55,000 (31 December 2013: HKD of RMB8,801,000 and USD of RMB700,000).

16 DERIVATIVE FINANCIAL INSTRUMENTS

Group

	As at 31 December		As at 31 December	
	2014 Assets RMB'000	**2014 Liability RMB'000**	2013 Assets RMB'000	2013 Liability RMB'000
Interest rate swaps *(a)*	–	**2,480**	–	3,991
Cross currency swap *(b)*	–	–	1,007	–
Foreign exchange forward contracts *(c)*	–	**1,162**	–	–
	–	**3,642**	1,007	3,991
Less non-current portion:				
Interest rate swaps *(a)*	–	**2,406**	–	3,668
Current portion	–	**1,236**	1,007	323

(a) Interest rate swaps

As at 31 December 2014 and 2013, the Group had interest rate swaps with commercial banks, which have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2014, the notional principal amounts of the outstanding interest rate swaps were USD63,000,000 and HK$166,578,947 (31 December 2013: USD67,800,000 and HK$166,578,947) and the fixed interest rates varied from 4% to 4.458% per annum(31 December 2013: 4% to 4.458% per annum). Gains and losses arising from the fair value change of the interest rate swaps were recognized in the consolidated income statements within "finance costs/income".

(b) Cross currency swap

As at 31 December 2013, the Group had a cross currency swap with a commercial bank. The principal amount under the outstanding cross currency swap contract at 31 December 2013 amounting to RMB50,000,000 has been exchanged at inception and would be re-exchanged on expiry date at the same exchange rate used for intial principal exchange. Under the cross currency swap contract, only the fixed interest rate of 1.05% per annum on the original RMB principal amounts would be received by the Group. Gains and losses arising from the fair value change of the cross currency swap were recognized in the consolidated income statements within "finance costs/income". The cross currency swap contract matured.

(c) Foreign exchange forward contracts

In 2014, the Group had foreign exchange forward contracts with a commercial bank. The notional principal amounts of the outstanding forward exchange contracts as at 31 December 2014 were USD11,000,000 (31 December 2013: nil), which will be settled in the first half of 2015. Gains and losses arising from the fair value change of the foreign exchange forward contracts were recognized in the consolidated income statements within "finance costs/income".

17 ORDINARY SHARES

Group and Company

	Note	**Number of ordinary shares**	**Nominal value of ordinary shares** (In HKD)	**Equivalent nominal value of ordinary shares** (In RMB)
As at 1 January 2013		1,591,340,000	159,134,000	133,613,000
Issue of shares upon exercise of options	*(a)*	6,914,300	691,430	551,508
Issue of shares in connection with conversion of convertible bonds	*(b)*	97,187,500	9,718,750	7,732,136
As at 31 December 2013		1,695,441,800	169,544,180	141,896,644
As at 1 January 2014		1,695,441,800	169,544,180	141,896,644
Issue of shares upon exercise of options	*(a)*	948,800	94,880	74,860
As at 31 December 2014		**1,696,390,600**	**169,639,060**	**141,971,504**

(a) During the year ended 31 December 2014, a total of 948,800 ordinary shares (2013: 6,914,300 ordinary shares) were issued for cash at the exercise price of HK$2.6 per share as a result of the exercise of share options (Note 18(b)(i)).

(b) During the year ended 31 December 2013, a total of 97,187,500 ordinary shares were issued upon the request for conversion by the bondholders (Note 19(b)) at the conversion price of HK$2.4 per share. The ordinary shares issued have the same rights as the other shares in issue.

18 OTHER RESERVES

	Group						
	Statutory reserve	Merger reserve	Share options reserve	Share premium	Capital redemption reserve	Capital reserve	Total
As at 1 January 2013	88,464	(141,929)	20,325	845,130	702	(38,653)	774,039
Appropriation to statutory reserve *(a)*	5,137	–	–	–	–	–	5,137
Issue of ordinary shares in connection with conversion of convertible bonds *(Note 19(b))*	–	–	–	305,954	–	–	305,954
Pre-IPO share option plan *(b)*	–	–	3,539	–	–	–	3,539
Exercise of share options *(b)*	–	–	(4,728)	18,503	–	–	13,775
Acquisition of additional interests in a subsidiary *(Note 33(d))*	–	–	–	–	–	(383)	(383)
As at 31 December 2013	93,601	(141,929)	19,136	1,169,587	702	(39,036)	1,102,061
As at 1 January 2014	93,601	(141,929)	19,136	1,169,587	702	(39,036)	1,102,061
Appropriation to statutory reserve *(a)*	3,089	–	–	–	–	–	3,089
Pre-IPO share option plan *(b)*	–	–	3,092	–	–	–	3,092
2013 Share Option Scheme *(b)*	–	–	11,594	–	–	–	11,594
Exercise of share options *(b)*	–	–	(663)	2,531	–	–	1,868
Acquisition of additional interests in subsidiaries *(Note 33(a)(b))*	–	–	–	–	–	(4,517)	(4,517)
As at 31 December 2014	**96,690**	**(141,929)**	**33,159**	**1,172,118**	**702**	**(43,553)**	**1,117,187**

(a) Statutory reserve

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

For the year ended 31 December 2014, RMB3,089,000 (2013: RMB5,137,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

18 OTHER RESERVES (continued)

(b) Share options reserve

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

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

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

(i) Pre-IPO Share Option Plan

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

	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December	
		2014	2013
At 1 January	2.60	**33,430,700**	45,000,000
Exercised	2.60	**(948,800)**	(6,914,300)
Forfeited	2.60	**(887,600)**	(4,655,000)
At 31 December	2.60	**31,594,300**	33,430,700

The share options outstanding (expiry date: 21 April 2021) as at 31 December 2014 and 2013 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December	
		2014	2013
21 April 2012	2.60	**2,224,500**	2,748,500
21 April 2013	2.60	**6,898,600**	7,402,200
21 April 2014	2.60	**7,460,800**	7,760,000
21 April 2015	2.60	**7,505,200**	7,760,000
21 April 2016	2.60	**7,505,200**	7,760,000
		31,594,300	33,430,700

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

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

Out of the 31,594,300 outstanding options (2013: 33,430,700 outstanding options), 16,583,900 options (2013: 10,150,700 options) were exercisable. Options exercised in 2014 resulted in 948,800 ordinary shares (2013: 6,914,300 ordinary 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$5.4 per share (2013: HK$4.6).

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

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

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Cost of sales	**36**	(338)
Administrative expenses	**4,427**	3,429
Selling and marketing expenses	**(1,371)**	448
	3,092	3,539

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(ii) 2013 Share Option Scheme

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

	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December	
		2014	2013
Beginning of the period	5.93	**–**	–
Granted	5.93	**19,980,000**	–
Forfeited	5.93	**(416,600)**	–
End of the period	5.93	**19,563,400**	–

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

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

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

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

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

The significant inputs into the model were as follows:

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

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

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Cost of sales	**189**	–
Administrative expenses	**2,079**	–
Selling and marketing expenses	**9,326**	–
	11,594	–

	Company			
	Share options reserve RMB'000	**Share premium** RMB'000	**Capital redemption reserve** RMB'000	**Total** RMB'000
As at 1 January 2013	20,325	845,130	702	866,157
Issue of ordinary shares in connection with conversion of convertible bonds *(Note 19(b))*	–	305,954	–	305,954
Pre-IPO share option plan	3,539	–	–	3,539
Exercise of share options	(4,728)	18,503	–	13,775
As at 31 December 2013	19,136	1,169,587	702	1,189,425
As at 1 January 2014	19,136	1,169,587	702	1,189,425
Pre-IPO share option plan	3,092	–	–	3,092
2013 Share Option Scheme	11,594	–	–	11,594
Exercise of share options	(663)	2,531	–	1,868
As at 31 December 2014	**33,159**	**1,172,118**	**702**	**1,205,979**

19 BORROWINGS

Group

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Non-current		
Bank borrowing – secured *(a)*	**–**	22,000
Bank borrowing – unsecured	**1,891,464**	484,676
Less: Current portion of non-current borrowings	**(261,503)**	–
	1,629,961	506,676
Current		
Bank borrowings – secured *(a)*	**22,028**	140,694
Bank borrowings – unsecured	**549,081**	513,310
Current portion of non-current borrowings *(c)*	**261,503**	–
	832,612	654,004
	2,462,573	1,160,680

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Bank borrowings:		
– USD	**1,510,122**	564,448
– RMB	**480,150**	468,405
– HKD	**472,301**	127,827
	2,462,573	1,160,680

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

	6 months or less	**Between 6 and 12 months**	**Between 1 and 5 years**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014	**2,242,573**	**220,000**	**–**	**2,462,573**
As at 31 December 2013	880,680	280,000	–	1,160,680

19 BORROWINGS (continued)

The maturity of borrowings is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
On demand or within 1 year	**832,612**	654,004
Between 1 and 2 years	**1,267,547**	191,658
Between 2 and 5 years	**362,414**	315,018
	2,462,573	1,160,680

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Borrowings – current		
– RMB	**5.95%**	6.06%
– HKD	**4.90%**	–
– USD	**4.71%**	3.35%
Borrowings – non-current		
– HKD	**4.90%**	12.60%
– USD	**4.71%**	5.08%

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

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
RMB facilities	**403,280**	535,750
USD facilities	**139,560**	613,765
HKD facilities	**–**	190,440
	542,840	1,339,955

19 BORROWINGS (continued)

(a) Bank borrowings – secured

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Secured by bank deposits *(i)*	**22,028**	50,000
Secured by property, plant and equipment and bank deposits *(ii)*	**–**	65,138
Secured by property, plant and equipment *(iii)*	**–**	47,556
	22,028	162,694

i. The bank borrowings of RMB22,028,000 (31 December 2013: RMB50,000,000) were secured by certain bank deposits (Note 15(b)) of the Group of RMB32,544,000, as at 31 December 2014 (31 December 2013: RMB15,000,000).

ii. The bank borrowings of RMB65,138,000 were secured by certain machinery and equipment (Note 6) and bank deposits (Note 15(b)) of the Group, with carrying amounts of RMB47,107,000 and RMB39,145,000, respectively, as at 31 December 2013.

iii. The bank borrowings of RMB47,556,000 were secured by certain machinery and equipment (Note 6) of the Group, with a carrying amount of RMB90,201,000, as at 31 December 2013.

(b) Convertible bonds

The Company issued convertible bonds to CITIC Capital China Access Fund Limited ("CITIC") at a total nominal value of HK$233,250,000 (equivalent to RMB189,274,000) on 9 December 2011, carrying an interest rate of 3.5% per annum. These convertible bonds would mature in three years from the issuance date. The holder of these convertible bonds had the option to either convert them into the Company's ordinary shares at a conversion price of HK$2.4 per share at any time after three months from the issuance date and up to seven business days prior to the maturity date, or redeem them at 1.39 times of their nominal value of HK$233,250,000 upon maturity. The values of the host liability component and embedded derivative of the conversion option were determined at the issuance date.

The fair value of the conversion option was assessed using valuation techniques. The difference between the consideration received and the fair value of the conversion option represented the fair value of the liability component at initial recognition. It was included in non-current borrowings.

In February 2013, forty percent of the convertible bonds with a principal amount of HK$93,300,000 were converted to 38,875,000 ordinary shares (Note 17(b)) at a price of HK$2.4 per share. The corresponding liability component of the convertible bonds with carrying amount of HK$101,180,668 (equivalent to RMB81,382,646), together with corresponding embedded derivative with a carrying amount of HK$27,325,369 (equivalent to RMB21,978,614), were transferred to share capital and share premium as consideration for the shares issued.

In June 2013, the remaining sixty percent of the convertible bonds with a principal amount of HK$139,950,000 were converted to 58,312,500 ordinary shares (Note 17(b)) at a price of HK$2.4 per share. The corresponding liability component of the convertible bonds with a carrying amount of HK$158,038,798 (equivalent to RMB124,817,462), together with corresponding embedded derivative with carrying amount of HK$108,266,029 (equivalent to RMB85,507,427), were transferred to share capital and share premium as consideration for the shares issued.

19 BORROWINGS (continued)

(b) Convertible bonds (continued)

The convertible bonds recognized in the consolidated balance sheet is calculated as follows:

	The liability component (Borrowings) RMB'000	Derivative financial instruments RMB'000	Total RMB'000
As at 1 January 2013	204,903	33,526	238,429
Amortization using the effective interest method *(Note 27)*	10,544	–	10,544
Conversion of convertible bonds	(206,200)	(107,486)	(313,686)
Changes in fair value *(Note 26)*	–	75,892	75,892
Exchange difference *(Note 26)*	(3,949)	(1,932)	(5,881)
Interest settlement	(5,298)	–	(5,298)
As at 31 December 2013	–	–	–

Company

	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Non-current		
Bank borrowing – guaranteed *(c)*	**1,891,464**	484,676
Less: Current portion of non-current borrowings *(c)*	**(261,503)**	–
	1,629,961	484,676
Current		
Current portion of non-current borrowings *(c)*	**261,503**	–
Bank borrowings – unsecured	**–**	60,969
	261,503	60,969
	1,891,464	545,645

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

	As at 31 December 2014 RMB'000	As at 31 December 2013 RMB'000
Bank borrowings:		
– USD	**1,419,163**	417,818
– HKD	**472,301**	127,827
	1,891,464	545,645

19 BORROWINGS (continued)

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

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
As at 31 December 2014	**1,891,464**	**–**	**–**	**1,891,464**
As at 31 December 2013	545,645	–	–	545,645

The maturity of borrowings is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
On demand or within 1 year	**261,503**	60,969
Between 1 and 2 years	**1,267,547**	169,658
Between 2 and 5 years	**362,414**	315,018
	1,891,464	545,645

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Borrowings – current		
– HKD	**4.90%**	–
– USD	**4.71%**	3.94%
Borrowings – non-current		
– HKD	**4.90%**	12.60%
– USD	**4.71%**	4.70%

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

19 BORROWINGS (continued)

The Company had the following undrawn bank borrowing facilities:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
USD facilities	**–**	531,955
HKD facilities	**–**	190,440
	–	722,395

(c) Bank borrowings – guaranteed

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Guaranteed by certain subsidiaries	**1,891,464**	484,676

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 31 December 2014, all facilities were drawn down (31 December 2013: USD60,000,000 and HK$166,578,947 were drawn down). 15% of the loan principal will mature in 2015 and the remaining portion of 85% will mature in 2016.

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 31 December 2014, all facilities were drawn down. 10% of the loan principal will mature in 2015. For the remaining portion of 90%, it will mature evenly in 2016, 2017 and 2018 respectively.

In March 2014, the Company entered into a USD loan facility agreement with Far Eastern International Bank amounting to USD15,000,000. As of 31 December 2014, all facilities were drawn down. 40% of the loan principal will mature in 2015 and the remaining portion of 60% will mature in 2016.

20 DEFERRED REVENUE

Group

Deferred revenue represents government grants relating to certain research projects and production lines. Government grants relating to research projects are recognized in the consolidated income statement over the financial period necessary to match them with the costs that they are intended to compensate; government grants relating to production line are deferred and recognized in the consolidated income statement on a straight-line basis over the expected useful lives of the related production lines.

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Current – relating to certain research projects	**122**	61
Non-current – relating to certain production lines	**23,578**	22,839
	23,700	22,900

21 TRADE AND OTHER PAYABLES

Group

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Bills payable	**128,776**	142,126
Trade payables:		
– Due to related parties *(Note 35(c))*	**–**	1,247
– Due to third parties	**560,352**	339,710
Other payables:		
– Due to related parties *(Note 35(c))*	**48,624**	–
– Due to third parties	**86,494**	73,828
Staff salaries and welfare payables	**37,122**	29,489
Advances from customers	**25,533**	24,290
Interest payables	**1,096**	2,798
Accrued taxes other than income tax	**42,145**	24,691
Dividends payable	**1,463**	11,857
Other liabilities	**10,845**	11,212
	942,450	661,248

As at 31 December 2014 and 2013, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

21 TRADE AND OTHER PAYABLES (continued)

As at 31 December 2014 and 2013, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
– RMB	**736,178**	581,284
– USD	**151,509**	40,297
– NGN	**18,497**	22,273
– RUB	**3,166**	359
– KZT	**14,019**	2,893
– AED	**9,449**	5,798
– PKR	**4,868**	7,735
– CAD	**4,764**	568
– HKD	**–**	41
	942,450	661,248

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade payables, gross		
– Within 90 days	**485,303**	310,169
– Over 90 days and within 180 days	**52,707**	7,043
– Over 180 days and within 360 days	**20,440**	2,560
– Over 360 days and within 720 days	**463**	19,477
– Over 720 days	**1,439**	1,708
	560,352	340,957

Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Other payables due to related parties *(Note 35(c))*	**–**	190
Other payables due to third parties	**543**	42
	543	232

As at 31 December 2014 and 2013, all trade and other payables of the Company were non-interest bearing, and their fair values approximated their carrying amounts due to their short maturities.

The ageing of trade and other payables of the Company was within 90 days.

As at 31 December 2014, all trade and other payables of the Company were denominated in RMB (31 December 2013: denominated in RMB).

22 EXPENSES BY NATURE

Group

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress *(Note 13)*	**(58,762)**	(92,556)
Raw materials and consumable used *(Note 13)*	**922,967**	982,772
Employee benefit expenses *(Note 23)*	**473,473**	366,185
Depreciation *(Note 6)*	**161,655**	133,501
Transportation expenses	**128,153**	110,226
Utilities and electricity	**95,125**	89,327
Research and development expenses	**42,163**	42,510
Entertainment expenses	**54,673**	49,989
Sales commission	**32,097**	17,425
Travelling and communication expenses	**41,882**	37,187
Consulting expenses	**33,260**	30,700
Operating lease payments	**33,264**	29,588
Taxes and levies	**24,305**	21,482
Marketing and promotion expenses	**20,520**	22,069
Provision for impairment of receivables *(Note 14)*	**5,793**	1,427
Auditor's remuneration		
– Audit services	**3,250**	3,057
– Non-audit services	**1,786**	637
Amortization of lease prepayments *(Note 7)*	**2,135**	2,058
Amortization of intangible assets *(Note 8)*	**701**	541
Reversal of provision for inventory write-down *(Note 13)*	**(236)**	(4,923)
Miscellaneous	**7,427**	6,710
Total cost of sales, selling and marketing expenses and administrative expenses	**2,025,631**	1,849,912

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

Group

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Wages and salaries	**397,893**	318,039
Social security costs	**60,894**	44,607
Share options *(Note 18(b)(i), (ii))*	**14,686**	3,539
	473,473	366,185

24 DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

Group

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

The remuneration of every director and the chief executive for the years ended 31 December 2014 and 2013 are set out as follows:

	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Directors		
Directors' fees	**354**	376
Salaries	**4,573**	4,591
Discretionary bonus and allowances	**2,167**	2,221
Social security costs	**351**	268
Share options *(Note 18(b))*	**474**	809
	7,919	8,265

There was no chief executive who was not a director.

No individual has waived or agreed to waive any emoluments.

The remuneration of every director and chief executive for the year ended 31 December 2014 is set out as follows:

	Fees RMB'000	Salaries RMB'000	Discretionary bonus and allowances RMB'000	Social security costs RMB'000	Share options RMB'000	Total RMB'000
Year ended 31 December 2014						
Directors						
Zhang Jun (張軍)	–	731	751	76	45	1,603
Wang Tao (汪濤)	–	750	548	81	162	1,541
Zhang Shuman (張姝嫚)	–	1,361	–	51	45	1,457
Ji Min (紀敏)	–	723	408	75	60	1,266
Yuan Peng Bin (袁鵬斌)	–	718	460	68	162	1,408
Li Huaiqi (李懷奇)	–	290	–	–	–	290
Liu Qihua (劉奇華)	–	–	–	–	–	–
Wang Tao (王濤)	118	–	–	–	–	118
Lee Siang Chin	118	–	–	–	–	118
Liu Haisheng (劉海勝)	118	–	–	–	–	118
	354	**4,573**	**2,167**	**351**	**474**	**7,919**

24 DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS (continued)

Group (continued)

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

The remuneration of every director and the chief executive for the year ended 31 December 2013 is set out as follows:

	Fees RMB'000	Salaries RMB'000	Discretionary bonus and allowances RMB'000	Social security costs RMB'000	Share options RMB'000	Total RMB'000
Year ended 31 December 2013						
Directors						
Zhang Jun (張軍)	–	720	775	58	77	1,630
Wang Tao (汪濤)	–	750	565	16	276	1,607
Zhang Shuman (張姝嫚)	–	1,349	–	50	77	1,476
Ji Min (紀敏)	–	720	421	72	103	1,316
Yuan Pengbin (袁鵬斌)	–	762	460	72	276	1,570
Li Huaiqi (李懷奇)	–	290	–	–	–	290
Liu Qihua (劉奇華)	94	–	–	–	–	94
Wang Tao (王濤)	94	–	–	–	–	94
Lee Siang Chin	94	–	–	–	–	94
Liu Haisheng (劉海勝)	94	–	–	–	–	94
	376	4,591	2,221	268	809	8,265

(b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2014 include two (2013: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2013: two) individuals during the year are as follows:

	Year ended 31 December 2014 RMB'000	2013 RMB'000
Salaries	**2,093**	1,482
Discretionary bonus and allowances	**1,758**	1,339
Social security costs	**225**	136
Share options *(Note 18(b))*	**680**	552
	4,756	3,509

24 DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS (continued)

Group (continued)

(b) Five highest paid individual (continued)

The emoluments fell within the following bands:

	Year ended 31 December 2014	Year ended 31 December 2013
Emolument bands:		
Nil to HK$1,500,000 (equivalent to RMB1,181,300)	**–**	–
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,181,300 to RMB1,575,100)	**1**	–
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,575,100 to RMB1,968,900)	**2**	2
HK$2,500,001 to HK$3,000,000 (equivalent to RMB1,968,900 to RMB2,362,700)	**–**	–
	3	2

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

25 OTHER INCOME

Group

	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Gain on remeasuring existing interest in Hilong Temerso *(Note 34(b))*	**5,909**	–
Gain on remeasuring existing interest in Nantong Hilong *(Note 34(c))*	**–**	1,945
	5,909	1,945

26 OTHER LOSSES – NET

Group

	Year ended 31 December	
	2014 **RMB'000**	2013 RMB'000
Government grants	**16,735**	14,359
Gains on disposal of property, plant and equipment – net	**2,250**	969
Exchange losses	**(41,822)**	(41,534)
Changes in fair value of the embedded derivative of the convertible bonds including exchange difference *(Note 19(b))*	**–**	(73,960)
Others	**2,365**	(31)
	(20,472)	(100,197)

27 FINANCE COSTS – NET

	Year ended 31 December	
	2014 **RMB'000**	2013 RMB'000
Finance income:		
– Fair value gain on interest swaps and cross currency swaps	**1,511**	1,007
– Exchange gains	**4,861**	5,185
– Interest income derived from bank deposits	**6,696**	2,275
	13,068	8,467
Finance cost:		
– Interest expense on bank borrowings	**(112,268)**	(56,689)
Less: interest capitalised	**24,339**	–
– Amortization of the liability component of convertible bonds *(Note 19(b))*	**–**	(10,544)
– Fair value losses on foreign exchange forward contracts	**(1,162)**	–
– Fair value losses on interest swaps and cross currency swaps	**(1,007)**	(3,991)
	(90,098)	(71,224)
Finance costs – net	**(77,030)**	(62,757)

28 INCOME TAX EXPENSE

Group

	Year ended 31 December	
	2014 **RMB'000**	2013 RMB'000
Current income tax	**91,210**	96,328
Deferred income tax *(Note 11)*	**(44,675)**	(24,632)
Income tax expense	**46,535**	71,696

28 INCOME TAX EXPENSE (continued)

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Profit before tax	**461,709**	442,205
Tax calculated at statutory tax rates applicable to each group entity	**66,594**	83,006
Tax effect of:		
Expenses not deductible for tax purpose	**6,688**	6,373
Reversal of deferred tax liability related to withholding tax on dividends	**(38,436)**	(19,000)
Additional deduction for research and development expense *(b)*	**(4,374)**	(3,017)
Tax losses of subsidiaries not recognized	**16,063**	4,334
Tax charge	**46,535**	71,696

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the years ended 31 December 2014 and 2013.

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 20% to 34% prevailing in the places in which the Group operated for the year ended 31 December 2014 (31 December 2013: 20% to 35%).

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

Certain subsidiaries are qualified for new/high-tech technology enterprises status and enjoyed preferential 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 of 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 of China in respect of their earnings generated from 1 January 2008.

28 INCOME TAX EXPENSE (continued)

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

Meanwhile, pursuant to a resolution of the Board of Directors of Hilong Group of Companies Ltd. in December 2014, all the earning generated from the Company's PRC subsidiaries will all be permanently reinvested in 2014. Accordingly, deferred income tax liabilities of RMB10,521,000 have not been recognized for withholding tax that would be payable on the unremitted earnings of generated from the Company's PRC subsidiaries for the year ended 31 December 2014. As at 31 December 2014, deferred income tax liabilities of RMB48,688,000 have not been recognized for the withholding tax that would otherwise be payable on the unremitted earnings of RMB973,760,000.

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

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

	Year ended 31 December	
	2014	2013
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	15%

* Shanghai Hilong Drill Pipe Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2012 to 2014.

* Hilong Drill Pipe (Wuxi) Co., Ltd is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2012 to 2014.

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

* Hilong Pipeline Engineering Technology Service Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2012 to 2014.

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

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2014 and 2013.

28 INCOME TAX EXPENSE (continued)

(b) Additional deduction for research and development expense

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

29 EARNINGS PER SHARE

Group

Basic

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.

	Year ended 31 December	
	2014	2013
Profit attributable to equity owners of the Company (RMB'000)	**397,692**	344,630
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,203**	1,662,526
Basic earnings per share (RMB per share)	**0.2345**	0.2073

Diluted

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

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) 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. The calculation of the diluted earnings per share for the years ended 31 December 2014 and 2013 was shown as follows:

	Year ended 31 December	
	2014	2013
Profit attributable to equity owners of the Company (RMB'000)	**397,692**	344,630
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,203**	1,662,526
Adjustments for share options granted under the pre-IPO share option plan (thousands of shares)	**11,411**	14,325
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	**1,707,614**	1,676,851
Diluted earnings per share (RMB per share)	**0.2329**	0.2055

29 EARNINGS PER SHARE (continued)

As at 31 December 2014, there were 19,563,400 share options outstanding related to 2013 Share Option Scheme. For the year ended 31 December 2014, as the average market share price of the ordinary shares during the year was lower than the subscription price, the impact on earnings per share was anti-dilutive.

The convertible bonds were assumed to have been converted into ordinary shares, and the net profit was adjusted to eliminate the interest expense less the tax effect and any exchange and fair value movements. For the year ended 31 December 2013, the impact of weighted outstanding shares from the convertible bonds on earnings per share was anti-dilutive.

30 DIVIDENDS

Group and Company

Pursuant to a resolution of the Board of Directors on 20 March 2015, a final dividend of HK$0.0500 (equivalent to approximately RMB0.0394) per share for the year ended 31 December 2014 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 15 July 2015 to the shareholders of the Company whose names appear on the register of members of the Company as at 7 July 2015. The total amount is estimated to be HK$84,820,000 (equivalent to approximately RMB66,914,000). These financial statements do not reflect this dividend payable.

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 year ended 31 December 2014 and paid out.

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

31 CASH GENERATED FROM OPERATIONS

Group

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

	Year ended 31 December	
	2014 **RMB'000**	2013 RMB'000
Profit for the year before income tax	**461,709**	442,205
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**161,655**	133,501
– Amortization of lease prepayments *(Note 7)*	**2,135**	2,058
– Amortization of intangible assets *(Note 8)*	**701**	541
– Reversal of provision for inventory write-down *(Note 13)*	**(236)**	(4,923)
– Provision for impairment of receivables *(Note 14)*	**5,793**	1,427
– Share of profit of investments accounted for using equity method *(Note 9)*	**(2,947)**	(768)
– Finance costs *(Note 27)*	**83,726**	65,032
– Other income *(Note 25)*	**(5,909)**	(1,945)
– Net gains on disposal of property, plant and equipment *(Note 26)*	**(2,250)**	(969)
– Losses on the changes in fair value of the embedded derivative of the convertible bonds *(Note 26)*	**–**	73,960
– Share option expenses *(Note 18(b))*	**14,686**	3,539
	719,063	713,658
Changes in working capital:		
– Increase in trade and other receivables	**(394,787)**	(119,469)
– Increase in inventories	**(96,361)**	(106,452)
– Decrease/(increase) in restricted cash	**39,385**	(28,521)
– Increase in deferred revenue	**800**	1,511
– Increase/(decrease) in trade and other payables	**174,073**	(46,678)
– Cash generated from operations	**442,173**	414,049

31 CASH GENERATED FROM OPERATIONS (continued)

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

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Net book amount *(Note 6)*	**2,179**	1,716
Net gains on disposal of property, plant and equipment *(Note 26)*	**2,250**	969
Proceeds from disposal of property, plant and equipment	**4,429**	2,685
Collected	**1,583**	2,685
Not yet collected	**2,846**	–
	4,429	2,685

(c) Non-cash transactions

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

There were no significant non-cash transactions in 2013.

32 COMMITMENTS

Group

(a) Capital commitments

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Property, plant and equipment	**15,557**	1,027,293

(b) Operating lease commitments

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

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
No later than 1 year	**7,371**	8,337
Later than 1 year and no later than 3 year	**7,781**	14,116
Later than 3 years	**9,850**	11,314
	25,002	33,767

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Group

(a) Acquisition of additional interest in Nantong Hilong

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

	RMB'000
Carrying amount of non-controlling interests acquired	6,960
Consideration	(10,588)
Excess of consideration recognized 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 recognized 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 year 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 recognized within equity	(889)

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

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

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

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

(d) Acquisition of additional interest in Shanghai Hilong Special Oil Pipe Co., Ltd

On 31 December 2013, Hilong Group of Companies Ltd., a wholly owned subsidiary of the Group, acquired an additional 1% equity interest in Shanghai Hilong Special Oil Pipe Co., Ltd. for a purchase consideration of RMB1,560,000. The carrying amount of the non-controlling interests in Shanghai Hilong Special Oil Pipe Co., Ltd. on the date of acquisition was RMB1,177,000. The Group recognized a decrease in non-controlling interests of RMB1,177,000 and a decrease in equity attributable to owners of the Company of RMB383,000. The effect of changes in the ownership interest of Shanghai Hilong Special Oil Pipe Co., Ltd. on the equity attributable to owners of the Company during the year is summarised as follows:

	RMB'000
Carrying amount of non-controlling interests acquired	1,177
Consideration paid to non-controlling interests	(1,560)
Excess of consideration paid recognized within equity	(383)

34 BUSINESS COMBINATION

Group

(a) Acquisition of US coating business

The Group acquired a business relating to coating of the interior of pipes located in Texas, the United States of America (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 RMB43,405,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the US Coating Business. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

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

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

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

34 BUSINESS COMBINATION (continued)

(b) Acquisition of Russia Coating Business

The Group originally held a 56% equity interest in Hilong Temerso, a provider of coating services. Hilong Group acquired an additional 44% equity interest in Hilong Temerso from Kamelon LLC and obtained the control of Hilong Temerso on 1 December 2014. After the acquisition, the Group's effective equity interest in Hilong Temerso increased from 56% to 100%. In addition, the Group also acquired a 100% equity interest in Technomash LLC which was also owned by Kamelon LLC.

As a result of the acquisition, the Group is expected to increase its presence in the Russia market. It also expects to reduce cost through economies of scale. The goodwill of RMB44,477,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the Russia Coating Business. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

	RMB'000
Consideration:	
Total consideration transferred (i)	33,216
Fair value of equity interest held before the business combination	21,835
Total consideration	**55,051**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 6)*	41,838
Inventories	5,351
Trade and other receivables	3,939
Cash and cash equivalents	709
Trade and other payables	(41,986)
Deferred income tax assets *(Note 11)*	4,755
Deferred income tax liabilities *(Note 11)*	(4,032)
Total identifiable net assets	10,574
Goodwill *(Note 8)*	44,477
	55,051

34 BUSINESS COMBINATION (continued)

(b) Acquisition of Russia Coating Business (continued)

(i) Total consideration transferred

Part of the consideration included cash consideration of RMB11,676,000. The remaining portion of the consideration was in the form of a waiver of a receivable of RMB21,540,000 due from the selling shareholder.

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

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

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

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

(c) Acquisition of Nantong Hilong

Prior to July 2013, the Group originally held a 41% equity interest in Nantong Hilong, a drill pipe component producer, through Hilong Group of Companies Ltd., one of the subsidiaries of the Group. In July 2013, Hilong Group of Companies Ltd. acquired an additional 44% equity interest in Nantong Hilong from Zhongxing Energy Equipment Co., Ltd. and obtained the control of Nantong Hilong. After the acquisition, the Group's effective equity interest in Nantong Hilong increased from 41% to 85%.

As a result of the acquisition, the Group is expected to increase its presence in the domestic market. It also expects to reduce costs through economies of scale. The goodwill of RMB3,864,000 arising from the acquisition is attributable to acquired customer base and economies of scale expected from combining the operations of the Group and Nantong Hilong. None of the goodwill recognized is expected to be deductible for income tax purposes.

34 BUSINESS COMBINATION (continued)

(c) Acquisition of Nantong Hilong (continued)

The following table summarised the consideration paid for Nantong Hilong, the fair value of assets acquired and liabilities assumed and the non-controlling interest at the acquisition date.

	RMB'000
Consideration:	
Total cash consideration	35,200
Fair value of equity interest held before the business combination	29,199
Total consideration	**64,399**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 6)*	83,562
Lease prepayments *(Note 7)*	6,963
Inventories	40,006
Trade and other receivables	70,029
Cash and cash equivalents	5,249
Trade and other payables	(119,591)
Borrowings	(15,000)
Total identifiable net assets	**71,218**
Non-controlling interest	(10,683)
Goodwill *(Note 8)*	3,864
	64,399

The Group recognized a gain of RMB1,945,000 as a result of measuring at fair value its 41% equity interest in Nantong Hilong held before the business combination. The gain is included in "other income" in the consolidated income statement for the year ended 31 December 2013. As of 31 December 2013, the unpaid cash consideration due to Zhongxing Energy Equipment Co., Ltd. amounted to RMB12,248,000. The cash consideration was paid in 2014.

The revenue included in the consolidated income statement since July 2013 contributed by Nantong Hilong was RMB29,210,000. Nantong Hilong also contributed a loss of RMB160,000 over the same period.

Had Nantong Hilong been consolidated from 1 January 2013, the consolidated income statement of the Group would have showed a pro-forma revenue of RMB2,500,484,000 and a profit attributable to the equity owners of the Company of RMB341,020,000.

35 RELATED PARTY TRANSACTIONS

Group and Company

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

The ultimate parent company of the Group is Hilong Group Limited, which owns 53.16% (31 December 2013: 53.06%) equity interest in the Company as at 31 December 2014. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2014 and 2013, and balances arising from related party transactions as at 31 December 2014 and 2013.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hailong International
Hilong Group Ltd.
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hilong Oil Investments Co., Ltd.
Jiangyan Hilong Wire Welding 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.
Nantong Hilong**
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

(v) Joint ventures of the Group

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

* The Group acquired additional equity interest in Hilong Temerso and obtained control over it in 2014. The related party transactions with Hilong Temerso referred to the transactions before the acquisition. Details see Note 34(b).

** The Group acquired additional equity interest in Nantong Hilong and obtained control over it in 2013. The related party transactions with Nantong Hilong referred to the transactions before the acquisition. Details see Note 34(c).

(vi) Subsidiaries of the Group

Details of subsidiaries of the Group refer to Note 36.

(vii) Controlled by key management personnel

Shanghai Yuanzhi Metallurgical Co., Ltd.

35 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2014 and 2013, the Group had the following significant transactions with related parties:

	The Group Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**65,384**	93,337
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**23,898**	9,505
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**21,551**	1,093
Hilong Temerso	**7,339**	1,748
Jiangyan Hilong Wire Welding Co., Ltd.	**23**	–
	118,195	105,683
Purchase of materials:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**692**	–
Nantong Hilong	**–**	61,889
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	1,610
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**–**	558
	692	64,057
Purchase of property, plant and equipment:		
Hilong Oil Pipe Co., Ltd.	**57,109**	–
Consulting fee:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**–**	200
Rental expenses:		
Beijing Huashi Hilong Oil Investments Co., Ltd.	**5,241**	5,188
Hilong Oil Pipe Co., Ltd.	**2,102**	4,926
	7,343	10,114

In May 2014, Hilong Group of Companies Ltd., a wholly owned subsidiary of the Group, acquired an additional 5% equity interest in Hilong Oil Service and Engineering Co., Ltd. (Note 33(b)). As part of this transaction, Hilong Group of Companies Ltd. acquired the exiting interest of 1% each at a consideration of RMB972,000 each, from three individuals, who are related parties of the Group. These individuals are Mr. Zhang Jun, the controlling shareholder, Mr. Wang Tao, the executive director of the Group and Mr. Dai Daliang, the senior management of the Group.

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

35 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	The Group As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**38,485**	27,223
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**21,424**	3,598
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**8,143**	–
	68,052	30,821
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**40,268**	3,855
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**30,880**	23,759
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**15,366**	7,678
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**1,849**	2,970
Hilong Temerso	**–**	1,737
	88,363	39,999
Prepayments to:		
Beijing Huashi Hilong Oil Investment Co., Ltd.	**–**	5,188
Trade payables due to:		
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	689
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**–**	558
	–	1,247
Other payables due to:		
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**47,686**	–
Mr Zhang Jun	**938**	–
	48,624	–

35 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	The Company As at 31 December	
	2014 RMB'000	2013 RMB'000
Other receivables due from:		
Hilong Energy Limited	**2,122,762**	968,680
Hilong Oil Service Ltd.	**213,247**	212,477
Hilong Investment Ltd.	**154,062**	151,126
Hilong Marine Engineering (Hong Kong) Limited	**24,339**	–
Hilong Petroleum Technology & Engineering Co., Ltd.	**918**	915
	2,515,328	1,333,198

	The Group As at 31 December	
	2014 RMB'000	2013 RMB'000
Dividend receivables:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,550**	648

	The Company As at 31 December	
	2014 RMB'000	2013 RMB'000
Dividends receivable due from:		
Hilong Energy Holding Limited	**728,397**	593,397

	The Group As at 31 December	
	2014 RMB'000	2013 RMB'000
Dividends payable due to:		
Hailong International	**–**	9,470

Prior to the Company's global initial public offering on 21 April 2011, a dividend of RMB9,470,000 was approved to be distributed to Hailong International, the then equity owner of the subsidiaries of the Group. For the year ended 31 December 2014, such dividend of RMB9,470,000 was fully paid to Hailong International.

35 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	The Company As at 31 December 2014 RMB'000	The Company As at 31 December 2013 RMB'000
Other payables due to:		
Hilong Group of Companies Ltd.	**–**	190

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

(d) Key management compensation

	Year ended 31 December 2014 RMB'000	Year ended 31 December 2013 RMB'000
Salaries	**8,777**	8,900
Discretionary bonus and allowances	**5,193**	4,984
Social security costs	**805**	653
Share options *(Note 18(b))*	**1,246**	1,627
	16,021	16,164

36 SUBSIDIARIES

Company name	Country/place and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) 31 December 2014	Effective interests held by the Group (%) 31 December 2013	Direct/ Indirect	Principal activities
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 8 March 2002	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, 22 October 2003	USD4,000,000	**38.09%**	38.09%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, 12 November 2003	RMB15,000,000	**100%**	100%	Indirect	Manufacture and distribution of coating materials

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) 31 December 2014	2013	Direct/ Indirect	Principal activities
Hilong Group of Companies Ltd.	PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Pipeline Engineering Technology Service Co., Ltd.*	PRC, 9 November 2005	RMB50,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, 29 December 2005	RMB3,000,000	**100%**	100%	Indirect	Manufacture and distribution of hardbanding materials
Hilong Investment Ltd.	Malaysia, 13 September 2006	USD100	**100%**	100%	Indirect	Investment holding
Shanghai Hilong Tubular Goods Research Institute	PRC, 27 October 2006	RMB5,000,000	**100%**	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Hilong Petroleum Pipe Company LLC	Abu Dhabi, 6 November 2006	AED1,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, 17 November 2006	RMB50,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, 22 November 2006	RMB30,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) 31 December 2014	2013	Direct/ Indirect	Principal activities
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006	KZT110,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007	CAD100	**100%**	100%	Indirect	Oil and gas equipment trading and coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	PRC, 30 April 2007	RMB105,880,000	**95%**	85%	Indirect	Manufacture and distribution of special steel
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, 1 January 2008	RMB40,000,000	**51%**	51%	Indirect	Manufacture and distribution of oil and gas equipment
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, 7 January 2008	RMB20,000,000	**45.4%**	45.4%	Indirect	Coating service provision
Hilong Energy Limited	Hong Kong, 8 July 2008	HK$1	**100%**	100%	Indirect	Investment holding
Hilong Oil Service and Engineering Co., Ltd.	PRC, 16 July 2008	RMB80,000,000	**100%**	95%	Indirect	Oilfield service provision
Hilong USA LLC.	USA, 9 November 2008	USD1,030,000	**100%**	100%	Indirect	Oil and gas equipment trading
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, 5 January 2009	RMB120,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	PRC, 13 January 2009	RMB10,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD10,000	**100%**	100%	Indirect	Oilfield service provision

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) 31 December 2014	2013	Direct/ Indirect	Principal activities
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, 18 March 2009	USD400	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, 9 June 2009	RMB6,000,000	**100%**	100%	Indirect	Coating service provision
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 18 September 2009	RMB20,000,000	**51%**	51%	Indirect	Coating service provision
Hilong Drilling & Supply FZE	Dubai, 15 December 2009	AED1,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 29 September 2010	RMB15,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service & Sucursal Colombia Ltd.	Columbia, 26 April 2012	COP90,734,500	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	PRC, 1 November 2012	RMB10,000,000	**100%**	100%	Indirect	Research and development on the technology of coating services
Trade House Hilong-Rus Co. Ltd.	Russia, 25 March 2013	RUB300,000	**100%**	100%	Indirect	Oil and gas equipment trading
Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd.	Pakistan, 4 April 2013	PKR5,000,000	**100%**	100%	Indirect	Oil Service provision

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) 31 December 2014	Effective interests held by the Group (%) 31 December 2013	Direct/ Indirect	Principal activities
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.	PRC, 11 October 2013	RMB50,000,000	**100%**	100%	Indirect	Research, inspection and repairment of oil and gas equipment
Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Ltd.	Hong Kong, 9 December 2013	HK$1,000,000	**70%**	70%	Indirect	Offshore oilfield service provision
Hilong Marine Engineering (Hong Kong) Limited	Hong Kong, 16 December 2013	HK$1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong USA Holding Corp.	USA, 11 February 2014	USD10	**100%**	N/A	Indirect	Investment holding
Texas Internal Pipe Coating, LLC	USA, 26 July 2012	Nil	**100%**	N/A	Indirect	Coating service provision
Hilong TIPC Asset Management, LLC	USA, 11 February 2014	Nil	**100%**	N/A	Indirect	Investment holding and property management
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.	PRC, 17 April 2014	RMB20,000,000	**100%**	N/A	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Mine Drill Pipe Co., Ltd.	PRC, 11 April 2014	RMB5,000,000	**80%**	N/A	Indirect	Manufacture and distribution of oil and gas equipment
Hilong-Yekaterinburg LLC	Russia, 23 August 2011	RUB1,000,000	**100%**	N/A	Indirect	Coating service provision
Technomash LLC	Russia, 23 November 2009	RUB62,332,000	**100%**	N/A	Indirect	Investment holding and property management

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) 31 December 2014	2013	Direct/ Indirect	Principal activities
Hilong Offshore Petroleum Development Co., Ltd.	PRC, 3 December 2014	USD80,000,000	**100%**	N/A	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Drilling & Engineering Service Ltd	Malaysia, 15 January 2014	USD1,000	**100%**	N/A	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Albania SHPK	Albania, 28 July 2014	ALL3,000,000	**100%**	N/A	Indirect	Oilfield service provision
Hilong Petroleum Offshore Engineering Co., Ltd.	PRC, 12 March 2014	RMB50,000,000	**100%**	N/A	Indirect	Offshore oilfield service provision
Hilong Petroleum Offshore Engineering Services (Shanghai) Co., Ltd.	PRC, 18 February 2014	RMB15,000,000	**70%**	N/A	Indirect	Offshore design service provision
Hilong Petroleum Technical Services Nigeria Limited	Nigeria, 24 March 2014	NGN5,000,000	**51%**	N/A	Indirect	Oilfield service provision

* Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd was renamed as Hilong Pipeline Engineering Technology Service Co., Ltd on 2 July 2014.

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

37 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 20 March 2015, a dividend of HK$0.0500(equivalent to approximately RMB0.0394) per share was proposed. Details refer to Note 30.

38 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 20 March 2015.

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

Consolidated Results — **For the year ended 31 December**

	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000 (Restated)	2010 RMB'000 (Restated)
Revenue	**2,575,986**	2,452,358	2,264,373	1,833,519	1,379,482
Gross profit	**1,020,579**	987,591	895,280	751,322	563,794
Gross profit margin	**39.6%**	40.3%	39.5%	41.0%	40.9%
Operating profit	**535,792**	504,194	477,526	421,332	326,149
Operating profit margin	**20.8%**	20.6%	21.1%	23.0%	23.6%
Profit for the year	**415,174**	370,509	361,427	319,892	235,601
Profit attributable to:					
Equity owners of the Company	**397,692**	344,630	345,001	302,020	184,064
Non-controlling interests	**17,482**	25,879	16,426	17,872	51,537

Consolidated assets, equity and liabilities — **As at 31 December**

	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000 (Restated)	2010 RMB'000 (Restated)
ASSETS					
Non-current assets	**3,275,391**	2,013,386	1,581,635	1,372,166	923,985
Current assets	**3,351,624**	2,793,879	2,458,496	2,204,963	1,861,035
Total assets	**6,627,015**	4,807,265	4,040,131	3,577,129	2,785,020
EQUITY AND LIABILITIES					
Total equity	**3,143,249**	2,873,587	2,305,434	2,038,622	890,161
Non-current liabilities	**1,700,393**	610,055	443,358	298,752	91,911
Current liabilities	**1,783,373**	1,323,623	1,291,339	1,239,755	1,802,948
Total liabilities	**3,483,766**	1,933,678	1,734,697	1,538,507	1,894,859
Total equity and liabilities	**6,627,015**	4,807,265	4,040,131	3,577,129	2,785,020

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