

[Press Release]



**HILONG 2014 ANNUAL PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY  
UP15.4% TO RMB398 MILLION**

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**TO LAY A FOUNDATION FOR LONG-TERM DEVELOPMENT  
WITH SPECIALIZED OPERATION AND DIVERSIFIED BUSINESS LAYOUT**

**Financial Highlights (Audited)**

<i>RMB Million</i>	For the Year Ended 31 December		
	2014	2013	Change
<b>Revenue</b>	<b>2,576.0</b>	2,452.4	+5.0%
<b>Gross Profit</b>	<b>1,020.6</b>	988.0	+3.3%
<b>Gross Profit Margin (%)</b>	<b>39.6%</b>	40.3%	-0.7ppt
<b>Profit Attributable to Equity Owners of the Company</b>	<b>397.7</b>	344.6	+15.4%
<b>Basic Earnings Per Share (Expressed in RMB per share)</b>	<b>0.2345</b>	0.2073	+13.1%

(Hong Kong, 22 March 2015) – **Hilong Holding Limited** (“Hilong” or the “Group,” stock code: 1623), a leading PRC-based integrated oilfield equipment and services provider, announced its audited annual results for the year ended 31 December 2014.

During 2014, the Group recorded a revenue of RMB2,576 million, representing a year-on-year increase of 5.0%. Gross profit increased by 3.3% to RMB1,021 million, while gross profit margin reached 39.6%. Basic and diluted earnings per share were RMB0.2345 and RMB0.2329 respectively.

**Mr. Zhang Jun, Chairman and Chief Executive Officer** of Hilong, said, “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 had a big impact on the Company’s operation. Nevertheless, Hilong maintained a stable operation while firmly executing the established development strategy and achieved satisfactory results. Hilong is focusing on the specialized operations and 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.”

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In 2014, the Group restructured its existing business segments. The specific measures include moving OCTG coating services from the original coating materials and services segment to the drill pipe and related products segment as part of an effort to establish the oilfield equipment manufacturing and services segment; and forming the 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 Group also achieved a breakthrough in developing new business and expanding into new markets, notably by the new offshore engineering services segment to enter that business. The Group's four core business segments, including Oilfield Equipment Manufacturing and Services, Line Pipe Technology and Services, Oilfield Services and Offshore Engineering Services accounted for 49.3%, 10.5%, 40.1% and 0.1% of the total revenue respectively. Revenue generated in domestic and overseas markets accounted for 34.9% and 65.1% of total revenue respectively.

### **Oilfield Equipment Manufacturing and Services**

The new oilfield equipment manufacturing and services segment was created by 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, a slight growth as compared to 2013.

Within the segment, revenue generated by the drill pipe and related products business amounted to RMB994 million, a slight increase over 2013. Hilong continued to maintain a leading and stable market position in the domestic market and also achieved significant progress 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 gained greater recognition from more customers in the international markets and the Company can achieve a larger global market share in the future. Amongst the products, 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 pipes, slip-protected drill pipes and non-slip-crush drill pipes were substantially increased as compared to 2013. Development of new products also saw notable advances. A number of new non-API drill pipe products including gas seal drill pipes and efficient cuttings bed clean drill pipes were successfully developed.

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 the US and Hilong Temerso Co., Ltd. ("Hilong Temerso")<sup>1</sup> in Russia. These two acquisitions significantly expanded Hilong's capacity in OCTG coating services and bolstered the Company's international competitiveness in this business area. The acquisition of TIPC has enhanced the market influence of Hilong's brand in this region in all respects and helps Hilong to promote 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 should enable the Company to better integrate the resources in the local market and thus improve operational efficiency.

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<sup>1</sup> The OCTG coating plant in Russia was renamed to Hilong-Yekaterinburg LLC after the acquisition

### **Line Pipe Technology and Services**

After the business segment restructuring, the line pipe technology and services segment is composed of coating materials, line pipe coating services, CRA, CWC and line pipe inspection services. The Company has faced severe challenges in 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 the 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 declining demand for line pipe coating materials and services in the domestic market. Considering the uncertain outlook for this business segment in the 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 yet reached large-scale production, Hilong has already obtained several contracts from major domestic and international customers in 2014, including CRA projects from China National Petroleum Corporation (“CNPC”) Tarim Oilfield and Sichuan Oil and Gas Construction Engineering Company Ltd. (四川石油天然气建设工程有限责任公司) and the CWC contract in relation to the APA Group project in Australia jointly with Baosteel. Hilong’s performance in these projects gained the appreciation from the 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 praised by the customers. The above achievements enabled Hilong to establish first-mover advantage while further extending and improving the value chain for line pipe services at the same time, which embellishes its track record and will contribute to building up its customer base as Hilong evolves into a one-stop solution provider of line pipe services in the future.

### **Oilfield Services**

The overall operation of the oilfield services segment has been very stable in 2014. During the year, 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 recently 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 smoothly running since its commencement of service and the outstanding performance of the drilling team has been highly appreciated by the customer. This has further reinforced Hilong’s leading market position in the most demanding high-end onshore drilling service segment and is expected to bring more lucrative opportunities for Hilong to cooperate with international top-tier customers. During the year, the comprehensive services have also recorded steady development. The OCTG trading and related services have achieved remarkable growth, recording a 50% increase in revenue as compared to 2013. The OCTG trading and related services business is expected to grow into one of the stable revenue sources for the oilfield services segment in the future. Moreover, with teams for comprehensive services including mud engineering service already in place, Hilong is to soon launch a number of comprehensive services and further expand the business horizon of its oilfield services segment.

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## 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, complemented by an offshore engineering design service. For this business, the operation of the offshore pipe-laying derrick vessel Hilong 106 is the starting point. Several key preparatory tasks required before launching this business 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 announcement. As for business development, Hilong has secured two major EPCI<sup>2</sup> service contracts at a value of approximately RMB550 million from CNOOC and will utilize Hilong 106 to build the offshore line pipes for CNOOC's Weizhou Phase II Project and the East China Sea Project. Winning the two major contracts shows that Hilong has already gained recognition from premium domestic clients in this field and this is a good start 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 to secure such large-scale EPCI service contracts.

The Group has recruited top international talent and established an elite team for offshore engineering design services. Leveraging its advanced technical strength, the team was instrumental in Hilong's winning of the two EPCI service contracts from CNOOC through provision of strong technical support and is fully engaged in the implementation of the contracts, focusing on the areas including designing a construction program and guiding field operations. In the meantime, the team also secured several contracts in 2014 to provide design services to external customers with its design proposals widely praised by customers. The team also entered into a cooperation agreement with a customer to provide independent third-party technical consultation. The successes cited above fully reflected the value generated by the offshore engineering design service team both internally and externally.

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 also 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.

**Mr. Zhang** concluded, "In 2015, Hilong is facing persistent complicated and difficult market conditions. In particular, the international oil price which still lingers at low levels may cause certain customers to adjust their capital expenditure plans, ultimately affecting demand for Hilong's products and services and present continuous pressure on the Company's operations. These are challenges as well as opportunities. The year of 2015 also marks the first year in which Hilong will be expecting initial results after making adjustments to its business strategy. Hilong is confident that it can maintain stable operation for its existing business while anticipating that its new businesses led by the offshore engineering services will become new growth drivers for the Company."

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<sup>2</sup> EPCI services include engineering, procurement, construction and installation

### **About Hilong Holding Limited**

Hilong Holding Limited is a leading PRC-based integrated oilfield equipment manufacturer and service provider with a market leadership position in the fields of drill pipes, line pipe and OCTG coatings and oilfield services. It is China's largest and the world's second largest supplier of drill pipes and OCTG coatings, and a key supplier of line pipe coating materials in China. The Group continuously expands its business horizon and marched into the offshore engineering services field in 2014. Hilong follows the business philosophy of integrating products together with services and strives to become a top service provider with strong support from its high-end equipment.

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