* For identification purpose only

INTERIM REPORT 2014

海隆控股有限公司*
Hilong Holding Limited

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

CONTENTS

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. Liu Qihua (劉奇華)
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 Qihua (劉奇華)

JOINT COMPANY SECRETARIES

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

AUDITOR

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch

STOCK CODE

1623

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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2014		2013	
	RMB'000	**%**	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**428,893**	**36.3**	420,788	36.1
– Oil country tubular goods ("**OCTG**") coating services	**125,583**	**10.6**	124,455	10.7
– Drill pipe components	**10,484**	**0.9**	14,711	1.3
– Hardbanding	**12,407**	**1.1**	5,557	0.5
– Others	**11,909**	**0.9**	9,596	0.8
Subtotal	**589,276**	**49.8**	575,107	49.4
Line pipe technology and services				
– OCTG coating materials	**17,244**	**1.5**	17,161	1.5
– Oil and gas line pipe coating materials	**19,083**	**1.6**	59,775	5.1
– Oil and gas line pipe coating services	**38,878**	**3.3**	92,639	8.0
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**33,979**	**2.9**	3,410	0.2
– Concrete Weighted Coating ("**CWC**") services	**10,631**	**0.9**	–	–
Subtotal	**119,815**	**10.2**	172,985	14.8
Oilfield services	**472,519**	**40.0**	417,076	35.8
Total revenue	**1,181,610**	**100.0**	1,165,168	100.0

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

	Six months ended 30 June			
	2014		2013	
	RMB'000	**%**	RMB'000	%
The PRC	**419,321**	**35.5**	553,207	47.5
North and South America	**416,407**	**35.2**	317,163	27.2
Russia, Central Asia and East Europe	**110,168**	**9.3**	124,155	10.6
West Africa	**108,493**	**9.2**	94,904	8.2
Middle East	**71,133**	**6.0**	75,739	6.5
South Asia and others	**56,088**	**4.8**	–	–
	1,181,610	**100.0**	1,165,168	100.0

Revenue increased by RMB16.4 million, or 1.4%, from RMB1,165.2 million for the six months ended 30 June 2013 to RMB1,181.6 million for the Interim Period. 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 the line pipe technology and services segment.

MANAGEMENT DISCUSSION AND ANALYSIS

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB14.2 million, or 2.5%, from RMB575.1 million for the six months ended 30 June 2013 to RMB589.3 million for the Interim Period. Such increase primarily reflected an increase in revenue derived from sales of drill pipes.

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

	Six months ended 30 June	
	2014	2013
Sales of drill pipes		
– International market		
– volume (tons)	**11,854**	7,922
– unit price (RMB/ton)	**23,941**	24,151
Subtotal (RMB'000)	**283,794**	191,312
– PRC market		
– volume (tons)	**6,267**	10,008
– unit price (RMB/ton)	**23,153**	22,929
Subtotal (RMB'000)	**145,099**	229,476
Total (RMB'000)	**428,893**	420,788

Revenue from sales of drill pipes in the international market increased by RMB92.5 million, or 48.3%, from RMB191.3 million for the six months ended 30 June 2013 to RMB283.8 million for the Interim Period. The increase primarily reflected a 49.6% increase in the volume of drill pipes sold from 7,922 tonnes for the six months ended 30 June 2013 to 11,854 tonnes for the Interim Period, 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.

Revenue from sales of drill pipes in the PRC market decreased by RMB84.4 million, or 36.8%, from RMB229.5 million for the six months ended 30 June 2013 to RMB145.1 million for the Interim Period. The decrease primarily reflected a 37.4% decrease in volume of drill pipes sold in the PRC market from 10,008 tonnes for the six months ended 30 June 2013 to 6,267 tonnes for the Interim Period, while the average selling price remained stable. The decrease in the sales volume primarily reflected the delay in exploration and production spending by certain oil and gas companies in the PRC market.

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 the Interim Period, offset by (ii) revenue from OCTG coating services in the international market increased due to revenue contributed by our new plants in North America.

Line pipe technology and services. Revenue from the line pipe technology and services segment decreased by RMB53.2 million, or 30.7%, from RMB173.0 million for the six months ended 30 June 2013 to RMB119.8 million for the Interim Period. Such decrease primarily reflected decrease in the revenue derived from oil and gas line pipe coating materials and services, partially offset by the increase in the revenue from CRA lined pipe and CWC services.

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

The decrease in revenue from oil and gas line pipe coating materials primarily reflected our strategy to focus resources on developing and providing products and services with higher margin in this segment.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Oilfield services. Revenue from the oilfield services segment increased by RMB55.4 million, or 13.3%, from RMB417.1 million for the six months ended 30 June 2013 to RMB472.5 million for the Interim Period. Such increase was mainly 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 for the Interim Period as compared to the six months ended 30 June 2013.

Cost of Sales/Services

Cost of sales increased by RMB49.5 million, or 7.2%, from RMB684.1 million for the six months ended 30 June 2013 to RMB733.6 million for the Interim Period. Such increase primarily reflected an increase in cost of oilfield equipment manufacturing and services segment and oilfield 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 decreased by RMB33.0 million, or 6.9%, from RMB481.0 million for the six months ended 30 June 2013 to RMB448.0 million for the Interim Period. Gross margin decreased from 41.3% for the six months ended 30 June 2013 to 37.9% for the Interim Period. The decrease in gross margin primarily reflected the decrease in gross margin from oilfield equipment manufacturing and services segment and oilfield services segment, partially offset by increase in gross margin from line pipe technology and services segment.

Gross margin of oilfield equipment manufacturing and services segment decreased from 47.9% for the six months ended 30 June 2013 to 40.6% for the Interim Period, reflecting that (i) the portion of revenue derived from non-API drill pipes, which generally have higher gross margin than standard API drill pipes, decreased due to the lower revenue from the sales of drill pipes in the PRC market in the Interim Period, and the PRC market generally has a higher demand in non-API drill pipes, and (ii) certain OCTG coating plants were in their ramp up stage during the Interim Period.

Gross margin of oilfield services segment decreased from 39.3% for the six months ended 30 June 2013 to 35.0% for the Interim Period, reflecting (i) 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, and (ii) fixed costs incurred for certain drill rigs under reallocation without revenue contribution in the Interim Period.

Gross margin of line pipe technology and services segment increased from 24.1% for the six months ended 30 June 2013 to 36.1% for the Interim Period, reflecting (i) higher gross margin of oil and gas line pipe coating services as a result of engagement in complex, large-scale projects in the Interim Period, 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 RMB12.5 million, or 21.9%, from RMB57.0 million for the six months ended 30 June 2013 to RMB69.5 million for the Interim Period, 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 RMB27.4 million, or 20.2%, from RMB135.9 million for the six months ended 30 June 2013 to RMB163.3 million for the Interim Period. Such increase primarily reflected (i) an accretion of administrative expenses incurred in subsidiaries set-up or acquired by the Group since the second half of 2013, (ii) an increase in staff costs and office expenses incurred in connection with the expansion of oilfield services business, and (iii) the Group provided RMB1.2 million specific provision for impairment of certain receivables in the Interim Period, while reversed RMB3.0 million specific provision for impairment of certain receivables as such had been collected in the six months ended 30 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Gain/(Losses) – Net

The Group recognized net loss of RMB92.5 million for the six months ended 30 June 2013 and net gain of RMB23.2 million for the Interim Period. The net gain recognized for the Interim Period primarily reflected (i) a net gain of RMB13.8 million in foreign exchange gain, and (ii) RMB6.7 million in government grants in relation to new and high-technology projects. The net loss recognized for the six months ended 30 June 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 RMB28.6 million in foreign exchange losses, partially offset by RMB8.5 million in government grants in relation to new and high-technology projects.

Finance Costs – Net

Finance costs – net increased by RMB20.1 million, or 68.4%, from RMB29.4 million for the six months ended 30 June 2013 to RMB49.5 million for the Interim Period. Such increase primarily reflected (i) increase of interest expense from bank borrowings due to increase in bank borrowings in the Interim Period, and (ii) increase in foreign exchange losses-net related to bank borrowings denominated in currency other than the Company's functional currency, partially offset by the decrease in interest in relation to the liability component of 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 RMB161.3 million for the six months ended 30 June 2013 to RMB191.3 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB43.2 million for the six months ended 30 June 2013 and RMB2.0 million for the Interim Period. Effective tax rate was approximately 26.8% for the six months ended 30 June 2013 and 1.0% for the Interim Period. 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 the six months ended 30 June 2013.

Profit for the period

As a result of the foregoing, profit for the period increased from RMB118.1 million for the six months ended 30 June 2013 to RMB189.3 million for the Interim Period.

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 similarly titled measure utilized by other companies since such other companies may not calculate such measure 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 the Interim Period and the six months ended 30 June 2013 to the nearest measures prepared in accordance with HKFRS:

	Six months ended 30 June 2014				
		Adjustments			
	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/(gains) on swap (b) RMB'000	Non-GAAP RMB'000
Operating profit	**238,432**	**6,216**	**–**	**1,107**	**245,755**
Profit before income tax	**191,286**	**6,216**	**–**	**1,107**	**198,609**
Profit attributable to equity owners of the Company	**179,318**	**6,216**	**–**	**1,107**	**186,641**
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	**0.1057**				**0.1100**

	Six months ended 30 June 2013				
		Adjustments			
	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/(gains) on swap (b) RMB'000	Non-GAAP RMB'000
Operating profit	195,667	3,532	73,960	–	273,159
Profit before income tax	161,289	3,532	73,960	–	238,781
Profit attributable to equity owners of the Company	103,399	3,532	73,960	–	180,891
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	0.0634				0.1109

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 in 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 recognised immediately in the consolidated income statement.

The non-GAAP profit attributable to equity owners of the Company increased by 3.2% for the Interim Period compared to that of the six months ended 30 June 2013.

Inventories

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Inventory	**776,245**	737,725
Turnover days of inventory (in days)[1]	**188**	165

(1) Turnover days of inventory for a period or a year equal average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2013. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase in inventory turnover days from 165 days as at 31 December 2013 to 188 days as at 30 June 2014 primarily reflected an increase in inventory balance associated with (i) increase in finished drill pipes for oilfield equipment manufacturing and services segment as more orders are expected to be delivered in following months, and (ii) the increased finished pipes for oil and gas line pipe coating projects, of which deliveries were conducted in batches when the volume of finished coated pipes reached certain level.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and Other Receivables

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Trade receivables		
– Due from third parties	**1,397,568**	1,159,957
– Due from related parties	**27,678**	30,821
– Less: Provision for impairment of receivables	**(21,163)**	(20,000)
Trade receivables – net	**1,404,083**	1,170,778
Other receivables		
– Due from third parties	**52,115**	88,403
– Due from related parties	**66,303**	39,999
Other receivables	**118,418**	128,402
Bills receivable	**50,997**	105,781
Prepayments	**133,824**	128,802
Others	**648**	648
Total	**1,707,970**	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 parties and related parties as at the dates indicated and turnover days of the net trade receivables as at the dates indicated:

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Trade receivables, gross		
– Within 90 days	**800,456**	804,505
– Over 90 days and within 180 days	**158,397**	121,358
– Over 180 days and within 360 days	**313,797**	115,478
– Over 360 days and within 720 days	**99,520**	91,221
– Over 720 days	**53,076**	58,216
	1,425,246	1,190,778
Turnover days of trade receivables, net[1]	**198**	165

[1] Turnover days of trade receivables for a period or a year equal average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2013. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2014, trade receivables of RMB603.6 million, representing 42.4% 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 date indicated, the Group believes that there had been no change in their credit history or quality and the balances were fully collectable. The Group did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, the Board believes 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 198 days as at 30 June 2014 primarily reflected that settlement for trade receivables was less active in the first half of the year than that in the second half of the year, which is industry practice especially in the PRC market.

Trade and Other Payables

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Bills payable	**126,296**	142,126
Trade payables		
– Due to related parties	**42,243**	1,247
– Due to third parties	**312,643**	339,710
Other payables		
– Due to third parties	**68,777**	73,828
Staff salaries and welfare payables	**27,093**	29,489
Advance from customers	**48,463**	24,290
Interest payables	**1,969**	2,798
Accrued taxes other than income tax	**8,155**	24,691
Dividends payable	**1,470**	11,857
Other liabilities	**18,716**	11,212
	655,825	661,248

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Trade payables, gross		
– Within 90 days	**335,499**	310,169
– Over 90 days and within 180 days	**11,492**	7,043
– Over 180 days and within 360 days	**3,051**	2,560
– Over 360 days and within 720 days	**436**	19,477
– Over 720 days	**4,408**	1,708
	354,886	340,957
Turnover days of trade payables[1]	**86**	76

[1] Turnover days of trade payables for a period or a year equal average trade payables divided by total cost of sales and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2013. Average trade payables equal balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The decrease in the balance of trade payables due to third parties from 31 December 2013 to 30 June 2014 reflected the payment for procurement of the drilling rigs.

The increase in the balance of trade payables due to related parties from 31 December 2013 to 30 June 2014 reflected the purchase of land and property from a related party.

DIVIDENDS

During the Interim Period, a final dividend of HK7.7 cents per share of the Company, 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 not to declare any interim dividend for the Interim Period (2013: nil).

BUSINESS REVIEW

Although the slowdown of demand in the PRC domestic market has brought challenges to Hilong's operation in the first half of 2014, the Company was still able to achieve stable operational results in the Interim Period with the joint efforts of the Company's management team and staff. In the first half of 2014, the Company recorded a total revenue of RMB1,182 million, representing a slight increase over the corresponding period of last year. The profit attributable to equity owners of the Company achieved a significant growth of 73.4% as compared with the same period in 2013 to RMB179 million. During the Interim Period, the Company restructured its existing business segments to achieve higher operating efficiency. 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 of coating materials, line pipe coating services, CRA lined pipe, CWC services and line pipe inspection service. While maintaining stable operation of the existing business, Hilong also developed new businesses and expanded into new markets in an active and steady manner, and firmly implemented the established strategy of developing offshore engineering services business, which will lay a solid foundation for the Company's development in the next stage.

MANAGEMENT DISCUSSION AND ANALYSIS

Oilfield services

In the first half of 2014, Hilong oilfield services segment entered into a new stage of development. During the Interim Period, sales of oilfield services segment increased by 13.3% to RMB473 million. The growth was mainly attributable to the increase of day-rate revenue generated by the additional drilling rigs and the development of comprehensive services. The increase of day-rate revenue from the new rigs was primarily derived from the drilling service provided to Shell in Nigeria by HL-27, the 3,000HP high temperature and high pressure drilling rig, while the two drilling rigs that started operation in Pakistan in the second half of last year also contributed considerable revenue during the Interim Period. Since its commencement of operation in late February in 2014, HL-27 has been operating smoothly and was highly recognized by the customer, which marks Hilong's first solid step into the most high-end onshore drilling services field. As the first 3,000HP drilling rig operated by Hilong, the successful operation of HL-27 and the outstanding performance of the drilling team have established a higher benchmark for Hilong's drilling services and brought more precious opportunities to cooperate with other premium customers around the globe. Meanwhile, Hilong also developed comprehensive services in a planned manner. OCTG trading and related services realized a remarkable revenue growth in the first half of 2014 and gradually emerged as one of the stable revenue sources within the oilfield services segment. Other comprehensive services including mud engineering service are also in progress, reflecting Hilong's future development potential in this field.

Line pipe technology and services

Line pipe technology and services segment consists of coating materials, line pipe coating services, CRA, CWC and line pipe inspection service after the business segment restructuring. As compared with the same period in 2013[1], total revenue of the segment decreased by 30.7% to RMB120 million in the first half of 2014. The delay of line pipe construction projects in China resulted in the declined demand for line pipe coating materials and services in the domestic market. Given the uncertain prospects for line pipe construction projects in China in the short term, Hilong continued to make efforts in exploring the overseas markets in 2014 in search of new growth drivers for the traditional line pipe coating services. During the first half of 2014, Hilong was involved in several overseas line pipe coating services projects such as the APA Group project in Australia, demonstrating a notable progress in overseas market expansion. The CRA and CWC businesses which were launched in recent years were still at the early stage of development and have not reached the stage of large-scale operation. However, Hilong already obtained several CRA projects from China National Petroleum Corporation ("**CNPC**") Tarim Oilfield and Sichuan Oil and Gas Construction Engineering Company Ltd. (四川石油天然氣建設工程有限責任公司), and obtained the order for the CWC portion of the APA Group project in Australia jointly with Baosteel. The work quality of all these projects was widely recognized by the customers. With further strengthened market positions, Hilong has also achieved remarkable growth in these businesses, which will evolve into the new impetus for the segment's future growth. During the Interim Period, Hilong also seized the opportunity by launching the line pipe inspection service business. Winning the external inspection project for Shanghai Natural Gas Pipeline and the internal inspection projects for CNPC Shanjing Pipeline Phase III and Datang Coal Gas Pipeline enabled Hilong to establish the first-mover advantage and further extend and improve its value chain for line pipe technology and services, which will lay a solid foundation for providing one-stop solutions in the future.

Oilfield equipment manufacturing and services

After the business restructuring, drill pipe and related products and OCTG coating services are merged into the newly established oilfield equipment manufacturing and services segment. Revenue of the segment amounted to RMB589 million in the first half of 2014, reflecting a slight increase over the corresponding period last year[2]. The business of drill pipe and related products achieved slight growth and realized a total revenue of RMB464 million during the Interim Period. Hilong maintained the leading and stable market position for its drill pipe products and achieved a significant breakthrough in overseas sales. During the first half of 2014, sales of drill pipe products generated from the overseas markets increased by 48.3% to RMB284 million and accounted for 66.2% of the total drill pipe sales. This indicated that Hilong's drill pipe products have gained recognition from increasing international customers and the Company is capable of capturing more market shares globally in the future. New Non-API products including gas seal drill pipe and efficient cuttings bed clean drill pipe were successfully developed and introduced, and have been highly appreciated and widely recognized by the customers during the marketing process. The orders for premium products such as sour service drill pipe, slip-protected drill pipe and non-slip-crush drill pipe also recorded notable growth over the corresponding period of last year. In the first half of 2014, Hilong also launched drilling tools related services and completed certain preparatory work such as establishing the operational entity to be prepared for the subsequent development.

1 It refers to the total revenue from all the businesses under the line pipe technology and services segment in the first half of 2013.

2 It refers to the total revenue from drill pipe and related products and OCTG coating services in the first half of 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue of RMB126 million from OCTG coating services during the first half of 2014 remained steady as compared with the same period of 2013. During the Interim Period, Hilong further accelerated its capacity expansion globally. In the first half of 2014, Hilong successfully acquired Texas Internal Pipe Coating, LLC ("**TIPC**"). The transaction significantly reinforced the Company's OCTG coating services capacity. Hilong will also leverage the platform provided by TIPC to further promote the application of the advanced powder-based coating materials and the relevant coating service technology in the industry and especially in China, and strengthen its competitiveness in the international OCTG coating services industry. The acquisition represents Hilong's another successful move in the North American market after establishing the coating service plant in Canada in 2013 and will reinforce the overall market influence of the Hilong brand in North America. During the Interim Period, Hilong also adjusted part of its domestic OCTG coating services capacity in a planned manner to adapt for future changes of market demand in advance.

Offshore engineering services

Newly established in 2014, the offshore engineering services segment will focus on providing offshore pipe laying and lifting and installation services at the initial stage, supplemented by offshore engineering design service. The segment is based on the operation and maintenance of the offshore pipe-laying vessel Hilong 106. In the first half of 2014, Hilong successively completed the key preparatory work including setting up the operational entity, forming the core team and reaching out to the customers. Meanwhile, Hilong also obtained the approval from American Bureau of Shipping and a number of other certifications, demonstrating that Hilong is fully qualified as a vessel manager. The modification work on Hilong 106 was completed and the vessel will be put into service soon. Hilong also recruited international top talents and established an elite team for its offshore engineering design service. The team received wide recognition from the market with its designing proposals highly regarded by the customers. Hilong has already signed a cooperation agreement with a customer to provide independent third-party technical consultation and won relevant designing contracts.

PROSPECTS

2014 is an important year in the development history of Hilong. This year, Hilong entered into a new development era by marching into the offshore business area with the official launch of its offshore engineering services segment. The Company also restructured the existing business, continued to integrate products with services and gradually advanced to the higher end along the value chain. The overseas expansion also saw fruitful results, particularly in the aspects of global capacity redeployment and market expansion.

Looking ahead into the second half of 2014, Hilong is confident to continue its steady growth. Oilfield services segment will maintain the momentum of stable development. Hilong has already signed a contract with Kuwait Foreign Petroleum Exploration Company to provide drilling services with a 2,000HP drilling rig in Pakistan. The contract will significantly reinforce Hilong's market position in the South Asian oilfield services market and effectively promote the scale of operation for Hilong's oilfield service business in the local market. Furthermore, the contract award indicated that Hilong's global leading competitive strength in onshore drilling service is widely recognized by the top-tier international oil & gas companies, representing Hilong's another breakthrough in high-end oilfield services market expansion. While expanding its high-end drilling rig fleet, the Company will also increase the revenue contribution from comprehensive services. Hilong has already established a professional team to develop mud engineering service. In addition, the Company will also strengthen its cooperation with international renowned customers and is dedicated to building the premium brand name for Hilong oilfield services.

Regarding the traditional line pipe coating services, the Company will continue focusing on expanding overseas presence, gradually reducing dependence on the domestic projects and improving Hilong's international competitive strength in this field. Hilong will endeavour to promote the large-scale production and improve profitability for CRA and CWC by resources integration. Subsequent to the Interim Period, Hilong has already obtained additional CRA orders from its existing customers. Meanwhile, the Company will make efforts to cultivate the line pipe inspection service business, fully utilize the first-mover advantage and enhance its market position. Capitalizing on the existing abundant experience gained from the research and development ("**R&D**") on coating materials, the R&D on offshore engineering coating materials has seen remarkable progress and the relevant products are expected to be put into production within the year.

MANAGEMENT DISCUSSION AND ANALYSIS

With respect to the drill pipe business, Hilong will continue to focus on expanding overseas markets and enhancing Hilong's international influence. Meanwhile, the Company will also strengthen its sales force and boost the sales of Non-API drill pipes with highly added value. Drilling tools related services have already been launched with the target to provide value-added services such as one-stop solutions. This will further enhance Hilong's brand name and effectively promote the premium drill pipe products, especially strengthening the promotion and application of high-end drill pipes used for developing unconventional oil and gas resources. Hilong is also speeding up the R&D for special offshore pipes and aims at commencing commercial production of relevant products soon. OCTG coating services will see new growth opportunities after the capacity redeployment. In particular, the recent acquisition of TIPC will create synergy for Hilong's operation in North America with the Company's OCTG coating service plant in Canada and further enhance Hilong's global market position for Hilong in this field.

The offshore pipe-laying vessel Hilong 106 will soon start operation in the second half of 2014 while the offshore engineering design service will also accelerate its development. These will inject new impetus for the Company's development. Hilong is confident to leverage on its pioneer advantage, to expand the business and grow into one of the leaders in offshore engineering services industry in China and the nearby markets.

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

LIQUIDITY AND FINANCIAL RESOURCES

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Net cash (used in)/from operating activities	**(84,293)**	13,981
Net cash used in investing activities	**(386,913)**	(155,617)
Net cash from financing activities	**807,551**	79,174
Net increase/(decrease) in cash and cash equivalents	**336,345**	(62,462)
Exchange gain/(losses) on cash and cash equivalents	**4,150**	(3,758)
Cash and cash equivalents at the beginning of the period	**390,889**	403,962
Cash and cash equivalents at the end of the period	**731,384**	337,742

Operating Activities

Net cash used in operating activities during the Interim Period was RMB84.3 million, representing the interest payment of RMB64.7 million and income tax payment of RMB44.5 million, partially offset by cash generated from operations of RMB24.9 million.

Net cash generated from operating activities for the six months ended 30 June 2013 was RMB14.0 million, representing cash generated from operations of RMB107.3 million, partially offset by the interest payment of RMB29.8 million and income tax payment of RMB63.5 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB386.9 million, primarily reflecting payment of RMB332.4 million for purchases of property, plant and equipment, and payment of RMB57.3 million for acquisition of subsidiary.

Net cash used in investing activities for the six months ended 30 June 2013 was RMB155.6 million, primarily reflecting payment of RMB135.9 million for purchases of property, plant and equipment, and prepayment of RMB18.0 million for acquisition of subsidiary.

Financing Activities

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

Net cash generated from financing activities for the six months ended 30 June 2013 was RMB79.2 million, primarily reflecting proceeds of RMB434.4 million from borrowings, offset by (i) repayment of borrowings of RMB249.4 million, (ii) dividends payment of RMB98.6 million, and (iii) net cash out flow of RMB15.8 million arising from security deposit for bank borrowings.

CAPITAL EXPENDITURES

Capital expenditures were RMB169.5 million and RMB396.1 million for the six months ended 30 June 2013 and the Interim Period respectively. The increase in capital expenditures for the Interim Period primarily reflected the procurement of pipe-lay barge for the offshore engineering services segment.

INDEBTEDNESS

As at 30 June 2014, the outstanding indebtedness of RMB2,099.9 million was mainly denominated in USD, HKD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Non-current		
Bank borrowings – secured	46,146	22,000
Bank borrowings – unsecured	1,457,675	484,676
Less: Current portion of non-current borrowings	(46,146)	–
	1,457,675	506,676
Current		
Bank borrowings – secured	33,225	140,694
Bank borrowings – unsecured	562,853	513,310
Current portion of non-current borrowing	46,146	–
	642,224	654,004
	2,099,899	1,160,680

The bank borrowings of RMB79.4 million were secured by certain machinery and equipment and bank deposits of the Group, with a carrying amount of RMB130.2 million and RMB61.7 million, respectively, as at 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 2014 and 31 December 2013 are as follows:

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Total borrowings	**2,099,899**	1,160,680
Less: Cash and cash equivalents	**(731,384)**	(390,889)
Net debt	**1,368,515**	769,791
Total equity	**2,947,669**	2,873,587
Total capital	**4,316,184**	3,643,378
Gearing ratio	**31.71%**	21.13%

The gearing ratio increased as at 30 June 2014 compared to that as at 31 December 2013 mainly reflected the increase of bank borrowings in the Interim Period.

FOREIGN EXCHANGE

The Group mainly operates in the PRC and 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 25.7% appreciation of RMB against the USD from 21 July 2005 to 30 June 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 40.7% and 47.2% of the total revenue of the Company for the six months ended 30 June 2013 and the Interim Period, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS COMBINATION

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.

The Group has paid the consideration for the acquisition and closed the deal in the Interim Period.

STAFF AND REMUNERATION POLICY

As at 30 June 2014, the total number of full-time employees employed by the Group was 2,374 (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 30 June 2014:

On-site workers	1,529
Administrative	348
Research and development	148
Engineering and technical support	229
Company management	38
Sales, marketing and after-sales services	82
	2,374

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

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

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2014

	Note	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**2,022,253**	1,614,236
Lease prepayments	*7*	**93,912**	94,956
Intangible assets	*7*	**117,064**	72,863
Investments accounted for using equity method		**71,758**	71,176
Deferred income tax assets		**101,793**	99,136
Other long-term assets	*8*	**260**	61,019
		2,407,040	2,013,386
Current assets			
Inventories		**776,245**	737,725
Trade and other receivables	*9*	**1,707,970**	1,534,411
Derivative financial instruments		**–**	1,007
Restricted cash		**152,843**	129,847
Cash and cash equivalents		**731,384**	390,889
		3,368,442	2,793,879
Total assets		**5,775,482**	4,807,265
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	*10*	**141,955**	141,897
Other reserves	*11*	**1,105,226**	1,102,061
Retained earnings			
– Proposed final dividend		**–**	102,677
– Others		**1,562,805**	1,384,742
Currency translation differences		**(79,652)**	(76,048)
		2,730,334	2,655,329
Non-controlling interests		**217,335**	218,258
Total equity		**2,947,669**	2,873,587

The notes on page 24 to 53 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

AS AT 30 JUNE 2014

	Note	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*12*	**1,457,675**	506,676
Deferred income tax liabilities		**38,436**	76,872
Derivative financial instruments		**3,904**	3,668
Deferred revenue		**22,986**	22,839
		1,523,001	610,055
Current liabilities			
Trade and other payables	*13*	**655,825**	661,248
Current income tax liabilities		**6,516**	7,987
Borrowings	*12*	**642,224**	654,004
Derivative financial instruments		**186**	323
Deferred revenue		**61**	61
		1,304,812	1,323,623
Total liabilities		**2,827,813**	1,933,678
Total equity and liabilities		**5,775,482**	4,807,265
Net current assets		**2,063,630**	1,470,256
Total assets less current liabilities		**4,470,670**	3,483,642

The notes on page 24 to 53 are an integral part of this condensed consolidated interim financial information.

Approved by the Board of Directors on 22 August 2014.

Zhang Jun
Director

Ji Min
Director

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	(Unaudited) Six months ended 30 June 2014 RMB'000	2013 RMB'000
Revenue	*6(a)*	**1,181,610**	1,165,168
Cost of sales		**(733,596)**	(684,139)
Gross profit		**448,014**	481,029
Selling and marketing expenses		**(69,450)**	(56,997)
Administrative expenses		**(163,305)**	(135,902)
Other gain/(losses) – net	*14*	**23,173**	(92,463)
Operating profit		**238,432**	195,667
Finance income	*15*	**1,234**	4,743
Finance costs	*15*	**(50,715)**	(34,140)
Finance costs – net		**(49,481)**	(29,397)
Share of profit/(losses) of investments accounted for using equity method		**2,335**	(4,981)
Profit before income tax		**191,286**	161,289
Income tax expense	*16*	**(1,960)**	(43,159)
Profit for the period		**189,326**	118,130
Profit attributable to:			
Equity owners of the Company		**179,318**	103,399
Non-controlling interests		**10,008**	14,731
		189,326	118,130
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	*17*	**0.1057**	0.0634
– Diluted	*17*	**0.1048**	0.0631
Dividends	*18*	**–**	–

The notes on page 24 to 53 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	(Unaudited) Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit for the period	**189,326**	118,130
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(3,604)**	(19,076)
Total comprehensive income for the period	**185,722**	99,054
Attributable to:		
Equity owners of the Company	**175,714**	84,323
Non-controlling interests	**10,008**	14,731
	185,722	99,054

The notes on page 24 to 53 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		(Unaudited)						
		Capital and reserves attributable to equity owners						
	Note	Ordinary shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2013		133,613	774,039	1,246,633	(36,709)	2,117,576	187,858	2,305,434
Comprehensive income								
Profit for the period		–	–	103,399	–	103,399	14,731	118,130
Other comprehensive income								
Currency translation differences		–	–	–	(19,076)	(19,076)	–	(19,076)
Total comprehensive income for the period		–	–	103,399	(19,076)	84,323	14,731	99,054
Transactions with owners								
Issue of ordinary shares in connection with conversion of convertible bonds	*10(b)*	7,732	305,954	–	–	313,686	–	313,686
Pre-IPO share option plan	*11(a)*	–	3,532	–	–	3,532	–	3,532
Exercise of share options	*10(a)*	329	8,230	–	–	8,559	–	8,559
Dividends in respect of 2012	*18*	–	–	(98,707)	–	(98,707)	–	(98,707)
Total transaction with owners		8,061	317,716	(98,707)	–	227,070	–	227,070
As at 30 June 2013		141,674	1,091,755	1,251,325	(55,785)	2,428,969	202,589	2,631,558
As at 1 January 2014		**141,897**	**1,102,061**	**1,487,419**	**(76,048)**	**2,655,329**	**218,258**	**2,873,587**
Comprehensive income								
Profit for the period		**–**	**–**	**179,318**	**–**	**179,318**	**10,008**	**189,326**
Other comprehensive income								
Currency translation differences		**–**	**–**	**–**	**(3,604)**	**(3,604)**	**–**	**(3,604)**
Total comprehensive income for the period		**–**	**–**	**179,318**	**(3,604)**	**175,714**	**10,008**	**185,722**
Transactions with owners								
Pre-IPO share option plan	*11(a)*	**–**	**1,932**	**–**	**–**	**1,932**	**–**	**1,932**
2013 Share Option Scheme	*11(a)*	**–**	**4,284**	**–**	**–**	**4,284**	**–**	**4,284**
Exercise of share options	*10(a)*	**58**	**1,466**	**–**	**–**	**1,524**	**–**	**1,524**
Transactions with non-controlling interests	*21*	**–**	**(4,517)**	**–**	**–**	**(4,517)**	**(10,931)**	**(15,448)**
Dividends in respect of 2013	*18*	**–**	**–**	**(103,932)**	**–**	**(103,932)**	**–**	**(103,932)**
Total transaction with owners		**58**	**3,165**	**(103,932)**	**–**	**(100,709)**	**(10,931)**	**(111,640)**
As at 30 June 2014		**141,955**	**1,105,226**	**1,562,805**	**(79,652)**	**2,730,334**	**217,335**	**2,947,669**

The notes on page 24 to 53 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	(Unaudited) Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash flow from operating activities		
Cash generated from operations	**24,914**	107,332
Interest paid	**(64,683)**	(29,794)
Income tax paid	**(44,524)**	(63,557)
Net cash (used in)/generated from operating activities	**(84,293)**	13,981
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	**4,308**	3,273
Purchases of property, plant and equipment	**(332,376)**	(135,938)
Business combination	**(57,329)**	–
Purchases of intangible assets	**(3,391)**	–
Dividends received	**1,875**	–
Prepayment for acquisition of subsidiary	**–**	(17,952)
Purchases of lease prepayments	**–**	(5,000)
Net cash used in investing activities	**(386,913)**	(155,617)
Cash flow from financing activities		
Proceeds from borrowings	**1,228,124**	434,366
Repayments of borrowings	**(280,334)**	(249,409)
Net cash outflow arising from security deposit for bank borrowings	**(22,584)**	(15,789)
Dividends	**(103,925)**	(98,553)
Proceeds from share options exercised	**1,524**	8,559
Dividends paid to the then equity owner of the subsidiary	**(9,470)**	–
Dividends paid to non-controlling interests of the subsidiary	**(924)**	–
Acquisition of additional interests in subsidiaries	**(4,860)**	–
Net cash generated from financing activities	**807,551**	79,174
Net increase/(decrease) in cash and cash equivalents	**336,345**	(62,462)
Exchange gain/(losses) on cash and cash equivalents	**4,150**	(3,758)
Cash and cash equivalents at beginning of the period	**390,889**	403,962
Cash and cash equivalents at end of the period	**731,384**	337,742

The notes on page 24 to 53 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1 GENERAL INFORMATION OF THE GROUP

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

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

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

The condensed consolidated interim financial information was presented in Renminbi thousand (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 22 August 2014.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

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

(a) Amendments and interpretations to existing standards effective for accounting period beginning on or after 1 January 2014 have been adopted by the Group in 2014:

- Amendment to HKAS 32 "Financial instruments: Presentation – Offsetting financial assets and financial liabilities" is to the application guidance in HKAS 32 "Financial instruments: Presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

- Amendments to HKFRS 10, 12 and HKAS 27 "Consolidation for investment entities" give an exception to entities that meet an "investment entity" definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

- Amendment to HKAS 36 "Impairment of assets" on recoverable amount disclosures. This amendment addresses the disclosure 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 unaudited condensed consolidated interim financial information.

3 ACCOUNTING POLICIES (continued)

(a) Amendments and interpretations to existing standards effective for accounting period beginning on or after 1 January 2014 have been adopted by the Group in 2014: **(continued)**

- HK(IFRIC) 21 "Levies" is an interpretation of HKAS 37, "Provisions, contingent liabilities and contingent assets". HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

(b) Amendment to existing standard effective for the accounting period beginning on or after 1 January 2014 but not relevant to the Group:

- Amendment to HKAS 39 "Financial Instruments: Recognition and Measurement" – "Novation of derivatives".

(c) New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early 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.

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

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

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

4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2013, with the exception of changes in estimates that are required in determining the deferred income tax liabilities for the withholding taxation on unremitted earnings of certain subsidiaries (see Note 16).

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

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

5.2 Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 30 June 2014					
Borrowings and interest payable	713,314	615,493	936,902	–	2,265,709
Trade and other payables (excluding advance from customers, interest payable, staff salaries and welfare payables and other tax liabilities)	570,145	–	–	–	570,145
Derivative financial instruments	3,879	3,416	545	–	7,840
	1,287,338	618,909	937,447	–	2,843,694

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 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

5.3 Fair value estimation

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014 and 31 December 2013.

As at 30 June 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	–	3,904	–	3,904
Derivative financial instruments – current				
Interest rate swaps	–	186	–	186
	–	4,090	–	4,090

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

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

During the six months ended 30 June 2014, there were no transfers among levels of the fair value hierarchy (six months ended 30 June 2013: nil).

During the six months ended 30 June 2014, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities (six months ended 30 June 2013: nil).

5.4 Financial instruments in level 2

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

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

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

The fair value of 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.

5 FINANCIAL RISK MANAGEMENT (continued)

5.5 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 judgment 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 level 3 derivative financial instrument for the six months ended 30 June 2013 can refer to Note 12(a). There was no change in valuation techniques during the six months ended 30 June 2013. There was no such derivative financial instrument in level 3 for the six months ended 30 June 2014.

5.6 Fair value of financial assets and liabilities measured at amortised cost

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

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

During the six months ended 30 June 2014, there were no reclassifications of financial assets (six months ended 30 June 2013: nil).

6 SEGMENT INFORMATION

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

Senior executive management considers the business 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/(losses) of investments accounted for using equity method, which is consistent with that in the condensed consolidated interim financial information.

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

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

6 SEGMENT INFORMATION (continued)

During the six months ended 30 June 2014, the management restructured the existing business segments to achieve higher operating efficiency. The provision of oil country tubular goods ("**OCTG**") coating services, which was reported in coating materials and services segment, has been moved to be reported in 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 period's classification.

The Group started up offshore engineering services business with the agreement for purchase a pipe-lay barge entered into on 30 December 2013. Although the offshore engineering services segment does not meet the quantitative thresholds required by HKFRS 8 for reportable segment, management has concluded that this segment should be separately reported, as it is closely monitored by the senior executive management as a potential growth segment and is expected to materially contribute to group revenue in the future.

The Group's operations are mainly organized under the following business segments as a result of the aforementioned changes on business segments:

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

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

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

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2014 and 2013 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**589,276**	575,107
Line pipe technology and services	**119,815**	172,985
Oilfield services	**472,519**	417,076
	1,181,610	1,165,168

6 SEGMENT INFORMATION (continued)

(b) Segment information

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

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

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

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2013 is as follows:

	Six months ended 30 June 2013 (Unaudited)				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	618,020	232,952	417,076	–	1,268,048
Inter-segment sales	(42,913)	(59,967)	–	–	(102,880)
Revenue from external customers	575,107	172,985	417,076	–	1,165,168
Results					
Segment gross profit	275,509	41,620	163,900	–	481,029
Segment profit	64,578	17,269	113,820	–	195,667
Finance income					4,743
Finance costs					(34,140)
Share of losses of investments accounted for using equity method					(4,981)
Profit before income tax					161,289
Other information					
Depreciation of property, plant and equipment	23,767	4,456	33,806	–	62,029
Amortization of lease prepayments	532	–	–	–	532
Amortization of intangible assets	148	125	1	–	274
Capital expenditure	40,689	7,930	120,903	–	169,522

	As at 30 June 2013 (Unaudited)				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	2,308,125	533,508	1,343,544	–	4,185,177
Investments accounted for using equity method					68,646
Total assets					4,253,823
Total liabilities	1,159,751	233,227	229,287	–	1,622,265

6 SEGMENT INFORMATION (continued)

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2014 **RMB'000**	2013 RMB'000
The PRC	**419,321**	553,207
North and South America	**416,407**	317,163
Russia, Central Asia and East Europe	**110,168**	124,155
West Africa	**108,493**	94,904
Middle East	**71,133**	75,739
South Asia and others	**56,088**	–
	1,181,610	1,165,168

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June 2014 RMB'000	31 December 2013 RMB'000
The PRC	**1,194,361**	902,286
North and South America	**513,348**	390,170
West Africa	**230,687**	238,572
Middle East	**131,080**	132,187
Russia, Central Asia and East Europe	**28,100**	38,156
South Asia and others	**135,653**	141,653
	2,233,229	1,843,024

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

	(Unaudited) Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
The PRC	**387,047**	11,561
North and South America	**140,761**	47,090
West Africa	**1,767**	212
Middle East	**1,105**	353
Russia, Central Asia and East Europe	**506**	64
South Asia and others	**264**	110,242
	531,450	169,522

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

	(Unaudited)		
	Property, plant and equipment RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000
At 1 January 2013			
Cost	1,581,319	93,020	75,825
Accumulated depreciation	(327,575)	(7,454)	(2,634)
Impairment provision	–	–	(2,097)
Net book amount	1,253,744	85,566	71,094
Six months ended 30 June 2013			
Opening net book amount	1,253,744	85,566	71,094
Additions	164,522	5,000	–
Disposals	(999)	–	–
Depreciation	(62,029)	(532)	(274)
Exchange differences	(24,493)	–	–
Closing net book amount	1,330,745	90,034	70,820
At 30 June 2013			
Cost	1,715,189	98,020	75,825
Accumulated depreciation	(384,444)	(7,986)	(2,908)
Impairment provision	–	–	(2,097)
Net book amount	1,330,745	90,034	70,820

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

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

As at 30 June 2014, certain machinery and equipment with a carrying amount of RMB130,231,000 (31 December 2013: RMB137,308,000) were pledged as collaterals for the Group's borrowings (Note 12(b)).

8 OTHER LONG-TERM ASSETS

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Long-term prepaid expenses	260	50
Prepayment for acquisition of a vessel (a)	–	60,969
	260	61,019

(a) On 30 December 2013, Hilong Marine Engineering (Hong Kong) Ltd., 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) to Zhenhua ZHPL3 Limited in 2013. As at 30 June 2014, the Vessel was still under construction.

9 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Bills receivable	**50,997**	105,781
Trade receivables (a)		
– Due from third parties	**1,397,568**	1,159,957
– Due from related parties *(Note 20(c))*	**27,678**	30,821
Trade receivables – gross	**1,425,246**	1,190,778
Less: Provision for impairment of receivables	**(21,163)**	(20,000)
Trade receivables – net	**1,404,083**	1,170,778
Dividends receivable	**648**	648
Other receivables	**118,418**	128,402
Prepayments	**133,824**	128,802
	1,707,970	1,534,411

(a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables, before provision for impairment, as at 30 June 2014 and 31 December 2013 was as follows:

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Trade receivables, gross		
– Within 90 days	**800,456**	804,505
– Over 90 days and within 180 days	**158,397**	121,358
– Over 180 days and within 360 days	**313,797**	115,478
– Over 360 days and within 720 days	**99,520**	91,221
– Over 720 days	**53,076**	58,216
	1,425,246	1,190,778

10 ORDINARY SHARES

	Note	**Number of ordinary shares**	**(Unaudited) Nominal value of ordinary shares** (In HK$)	**Equivalent nominal value of ordinary shares** (In RMB)
Opening balance 1 January 2013		1,591,340,000	159,134,000	133,613,000
Issue of shares upon exercise of options	*(a)*	4,114,600	411,460	329,356
Issue of shares in connection with conversion of convertible bonds	*(b)*	97,187,500	9,718,750	7,732,136
As at 30 June 2013		1,692,642,100	169,264,210	141,674,492
Opening balance 1 January 2014		1,695,441,800	169,544,180	141,896,644
Issue of shares upon exercise of options	*(a)*	745,600	74,560	58,412
As at 30 June 2014		1,696,187,400	169,618,740	141,955,056

(a) During the six months ended 30 June 2014, a total of 745,600 ordinary shares (six months ended 30 June 2013: 4,114,600 ordinary shares) (Note 11(a)(i)) at par value of HK$0.1 per share were issued for cash at the exercise price of HK$2.6 per share as a result of the exercise of share options.

(b) During the six months ended 30 June 2013, a total of 97,187,500 ordinary shares at par value of HK$0.1 per share were issued upon the request for conversion by the bondholders (Note 12(a)) with the conversion price of HK$2.4 per share. The ordinary shares issued have the same rights as the other shares in issue.

11 OTHER RESERVES

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Statutory reserve	**93,601**	93,601
Merger reserve	**(141,929)**	(141,929)
Share options reserve (a)	**24,836**	19,136
Capital redemption reserve	**702**	702
Share premium (a)	**1,171,569**	1,169,587
Capital reserve *(Note 21)*	**(43,553)**	(39,036)
	1,105,226	1,102,061

11 OTHER RESERVES (continued)

(a) Share options reserve

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

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

The fair value of the contributions received in exchange for the grant of the options is recognised as an expense on a straight-line basis over vesting period of each tranche. These share options are measured at fair value at the granting date. The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the granting date fair value, is 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 HK$)	Exercise price (equivalent to RMB)	Outstanding shares (unaudited) Six months ended 30 June	
			2014	2013
Beginning of the period	2.60	2.07	**33,430,700**	45,000,000
Forfeited	2.60	2.07	**(887,600)**	(230,800)
Exercised *(Note 10(a))*	2.60	2.07	**(745,600)**	(4,114,600)
End of the period	2.60	2.07	**31,797,500**	40,654,600

The share options outstanding (expiry date: 21 April 2021) as at 30 June 2014 have the following vesting dates and exercise prices:

	(Unaudited) 30 June 2014		
Vesting date	**Exercise price (per share in HK$)**	**Exercise price (equivalent to RMB)**	**Outstanding shares**
21 April 2012	**2.60**	**2.07**	**2,224,200**
21 April 2013	**2.60**	**2.07**	**7,089,075**
21 April 2014	**2.60**	**2.07**	**7,473,675**
21 April 2015	**2.60**	**2.07**	**7,505,275**
21 April 2016	**2.60**	**2.07**	**7,505,275**
	2.60	**2.07**	**31,797,500**

11 OTHER RESERVES (continued)

(a) Share options reserve (continued)

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

Out of the 31,797,500 outstanding options (30 June 2013: 40,654,600 options), 16,786,950 options (30 June 2013: 13,795,000 options) were exercisable. Options exercised during the six months ended 30 June 2014 resulted in 745,600 shares (six months ended 30 June 2013: 4,114,600 shares) being issued at the exercise price of HK$2.6 per share. The related weighted average share price at the time of exercise was HK$5.03 per share (six months ended 30 June 2013: HK$3.37 per share).

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

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

The significant inputs into the model were as follows,

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

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2014 for share options granted under Pre-IPO share option plan amounted to RMB1,932,000 (six months ended 30 June 2013: RMB3,532,000), with a corresponding amount credited in share options reserve.

11 OTHER RESERVES (continued)

(a) 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 HK$)	Exercise price (equivalent to RMB)	Outstanding shares (unaudited) Six months ended 30 June	
			2014	2013
Beginning of the period	5.93	4.66	**–**	–
Granted	5.93	4.66	**19,980,000**	–
Forfeited	5.93	4.66	**(245,100)**	–
End of the period	5.93	4.66	**19,734,900**	–

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2014 have the following vesting dates and exercise prices:

Vesting date	(Unaudited) 30 June 2014 Exercise price (per share in HK$)	Exercise price (equivalent to RMB)	Outstanding shares
5 February 2015	**5.93**	**4.66**	**3,946,980**
5 February 2016	**5.93**	**4.66**	**3,946,980**
5 February 2017	**5.93**	**4.66**	**3,946,980**
5 February 2018	**5.93**	**4.66**	**3,946,980**
5 February 2019	**5.93**	**4.66**	**3,946,980**
	5.93	**4.66**	**19,734,900**

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

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

11 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

The significant inputs into the model were as follows,

	Granting date	
	In HK$	**Equivalent to RMB**
Spot share price	5.64	4.43
Exercise price	5.93	4.66
Expected volatility	53.13%	53.13%
Maturity (years)	10.00	10.00
Risk-free interest rate	2.20%	2.20%
Dividend yield	2.68%	2.68%
Early Exercise Level	1.58	1.58

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

12 BORROWINGS

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Non-current		
Bank borrowings – secured (b)	**46,146**	22,000
Bank borrowings – unsecured (c)	**1,457,675**	484,676
Less: Current portion of non-current borrowings	**(46,146)**	–
	1,457,675	506,676
Current		
Bank borrowings – secured (b)	**33,225**	140,694
Bank borrowings – unsecured (c)	**562,853**	513,310
Current portion of non-current borrowing	**46,146**	–
	642,224	654,004
	2,099,899	1,160,680

12 BORROWINGS (continued)

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Beginning of the period	**1,160,680**	939,232
Additions of borrowings – net	**1,200,369**	434,366
Repayments of borrowings	**(280,334)**	(249,409)
Amortization using the effective interest method	**8,705**	10,544
Conversion of convertible bonds (a)	**–**	(206,200)
Settlement of the interest of convertible bonds	**–**	(5,298)
Exchange difference	**10,479**	(7,580)
Ending of the period	**2,099,899**	915,655

(a) Convertible bonds

The Company issued convertible bonds to CITIC Capital China Access Fund Limited ("**CITIC**") at total nominal value of HK$233,250,000 (equivalent to RMB189,274,000) on 9 December 2011, with an interest rate of 3.5% per annum. These convertible bonds mature in three years from the issuance date. The holder of these convertible bonds has the option to either convert them into the Company's 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 the maturity. The value of the host liability component and embedded derivative of the conversion option were determined at 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 the non-current borrowings.

In February 2013, forty percent of convertible bonds with principal amount of HK$93,300,000 were converted to 38,875,000 ordinary shares (Note 10(b)) at a price of HK$2.4 per share. The corresponding liability component of convertible bonds with carrying amount of HK$101,180,668 (equivalent to RMB81,382,646), together with corresponding embedded derivative with carrying amount of HK$27,325,369 (equivalent to RMB21,978,614), were transferred to ordinary shares and share premium as consideration for the shares issued.

12 BORROWINGS (continued)

(a) Convertible bonds (continued)

In June 2013, sixty percent of convertible bonds with principal amount of HK$139,950,000 were converted to 58,312,500 ordinary shares (Note 10(b)) at a price of HK$2.4 per share. The corresponding liability component of convertible bonds with 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 ordinary shares and share premium as consideration for the shares issued.

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

	The liability component (Borrowings) RMB'000	Derivative financial instrument RMB'000	Total RMB'000
As at 1 January 2013	204,903	33,526	238,429
Amortization using the effective interest method	10,544	–	10,544
Changes in fair value	–	75,892	75,892
Exchange difference	(3,949)	(1,932)	(5,881)
Conversion of convertible bonds	(206,200)	(107,486)	(313,686)
Interest settlement	(5,298)	–	(5,298)
As at 30 June 2013	–	–	–

(b) Secured bank borrowings

The bank borrowings of RMB79,371,000 (31 December 2013: RMB65,138,000) were secured by certain machinery and equipment and bank deposits of the Group, with a carrying amount of RMB130,231,000 and RMB61,729,000, respectively, as at 30 June 2014 (31 December 2013: RMB47,107,000 and RMB39,145,000, respectively).

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

The bank borrowings of RMB50,000,000 were secured by certain bank deposits of the Group, with a carrying amount of RMB15,000,000, as at 31 December 2013.

(c) Unsecured bank borrowings

In September 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 23 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD147,250,000 facility and a HK$408,812,500 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As of 30 June 2014, all facilities were drawn down (31 December 2013: USD60,000,000 and HK$166,578,947 were drawn down).

In April 2014, the Company entered into a multi-currency loan facility agreement with a syndicate of 9 banks. Pursuant to the agreement, the Company obtained four-year syndicated loan facilities, including a USD74,000,000 facility and a HK$201,500,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As of 30 June 2014, borrowings of USD20,000,000 and HK$54,459,459 were drawn down under the facilities (31 December 2013: Nil).

13 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Bills payable	**126,296**	142,126
Trade payables:		
– Due to third parties	**312,643**	339,710
– Due to related parties *(Note 20(c))*	**42,243**	1,247
Other payables:		
– Due to third parties	**68,777**	73,828
Staff salaries and welfare payables	**27,093**	29,489
Advance from customers	**48,463**	24,290
Interest payables	**1,969**	2,798
Accrued taxes other than income tax	**8,155**	24,691
Dividends payable	**1,470**	11,857
Other liabilities	**18,716**	11,212
	655,825	661,248

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

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Trade payables, gross		
– Within 90 days	**335,499**	310,169
– Over 90 days and within 180 days	**11,492**	7,043
– Over 180 days and within 360 days	**3,051**	2,560
– Over 360 days and within 720 days	**436**	19,477
– Over 720 days	**4,408**	1,708
	354,886	340,957

14 OTHER GAIN/(LOSSES) – NET

	(Unaudited) Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Exchange gain/(losses) – net	**13,757**	(28,643)
Government grants	**6,716**	8,496
Gain on disposal of property, plant and equipment – net	**2,347**	2,274
Changes in fair value of derivative financial instrument (including exchange difference) *(Notes 12(a))*	**–**	(73,960)
Others	**353**	(630)
	23,173	(92,463)

15 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**1,234**	921
– Exchange gain – net	**–**	3,822
	1,234	4,743
Finance cost:		
– Interest expense on bank borrowings	**(50,434)**	(23,596)
Less: interest capitalised	**7,155**	–
	(43,279)	(23,596)
– Exchange losses – net	**(6,329)**	–
– Fair value losses on derivative financial instruments	**(1,107)**	–
– Amortization of the liability component of Convertible bonds *(Note 12(a))*	**–**	(10,544)
	(50,715)	(34,140)
Finance costs – net	**(49,481)**	(29,397)

16 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Current income tax	**43,053**	44,542
Deferred income tax	**(41,093)**	(1,383)
Income tax expense	**1,960**	43,159

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 are not subject to any income tax according to relevant rules and regulations.

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the six months ended 30 June 2014 and 2013.

Enterprises incorporated in other places are subject to income tax rates of 15% to 34% prevailing in the places in which the Group operated for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 15% to 35%).

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

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

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

Pursuant to China-Hong Kong Arrangement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, 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" during the six months ended 30 June 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 China, 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, during the six months ended 30 June 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 six months ended 30 June 2014 with a corresponding credit to the deferred income tax expenses in the condensed consolidated interim income statement.

16 INCOME TAX EXPENSE (continued)

Meanwhile, pursuant to a resolution of the Board of Directors in December 2013, all the earning generated from the Company's PRC subsidiaries will all be permanently reinvested since 2013. Accordingly, deferred income tax liabilities of RMB3,702,000 have not been recognised for withholding tax that would be payable on the unremitted earnings of generated from the Company's PRC subsidiaries during the six months ended 30 June 2014. As at 30 June 2014, the permanently reinvested unremitted earnings totalled RMB837,370,000 (31 December 2013: RMB763,330,000).

17 EARNINGS PER SHARE

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

	(Unaudited) Six months ended 30 June	
	2014	2013
Profit attributable to equity owners of the Company (RMB'000)	**179,318**	103,399
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,036**	1,630,615
Basic earnings per share (RMB per share)	**0.1057**	0.0634

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 market share price of the Company's shares from 1 January to 30 June) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the diluted earnings per share for the six months ended 30 June 2014 and the six months ended 30 June 2013 was shown as:

	(Unaudited) Six months ended 30 June	
	2014	2013
Earnings		
Profit attributable to equity owners of the Company (RMB'000)	**179,318**	103,399
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,036**	1,630,615
Adjustments for share options granted under the pre-IPO share option plan (thousands of shares)	**14,749**	7,007
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	**1,710,785**	1,637,622
Diluted earnings per share (RMB per share)	**0.1048**	0.0631

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

The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect and any exchange and fair value movements. For the six months ended 30 June 2013, the impact of weighted outstanding shares from convertible bonds on earnings per share was anti-dilutive.

18 DIVIDENDS

The dividend in respect of 2013 of HK$0.0770 (equivalent to RMB0.0613) per share, amounting to a total dividend of HK$130,601,000 (equivalent to RMB103,932,000), was approved at the Company's annual general meeting on 16 May 2014. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2014.

The dividend in respect of 2012 of HK$0.0760 (equivalent to RMB0.0616) per share, amounting to a total dividend of HK$124,004,000 (equivalent to RMB98,707,000), was approved at the Company's annual general meeting on 10 May 2013. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2013.

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

19 BUSINESS COMBINATION

The Group acquired a 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 the U.S., Hilong USA Holding Corp., acquired a 100% equity interest in Texas Internal Pipe Coating, LLC ("**TIPC**"). In addition, the Group also acquired the 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.

As a result of the acquisition, the Group is expected to increase its presence in the US market. It also expects to reduce costs through economies of scale. The goodwill of RMB40,650,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the US Coating Business.

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

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

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

20 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2014 and 2013, and balances arising from related party transactions as at 30 June 2014 and 31 December 2013.

(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
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 Steel Pipe Co., Ltd.*
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

(v) Jointly controlled entities of the Group

Hilong Temerso Co., Ltd.

(vi) Controlled by key management personnel

Shanghai Xinhao Technology Development Co., Ltd.
Shanghai Yuanzhi Metallurgical Co., Ltd.

* The Group acquired additional equity interest in Nantong Hilong Steel Pipe Co., Ltd. and obtained control over it in 2013. The related party transactions with Nantong Hilong Steel Pipe Co., Ltd. referred to the transactions before the acquisition.

20 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the six months ended 30 June 2014 and 2013, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	20,331	37,428
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	6,311	4,926
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	5,629	1,089
Hilong Temerso Co., Ltd.	3,289	1,758
	35,560	45,201
Purchase of materials:		
Jiangyan Hilong Wire Welding Co., Ltd.	530	–
Nantong Hilong Steel Pipe Co., Ltd.	–	61,889
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	–	1,993
	530	63,882
Purchase of property, plant and equipment:		
Hilong Oil Pipe Co., Ltd.	58,026	–
Consulting fee:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	–	750
Shanghai Xinhao Technology Development Co., Ltd.	–	415
	–	1,165
Rental expenses:		
Beijing Huashi Hilong Oil Investments Co., Ltd.	2,786	2,564
Hilong Oil Pipe Co., Ltd.	2,102	1,802
	4,888	4,366

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.

20 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**13,841**	27,223
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**7,383**	3,598
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**6,454**	–
	27,678	30,821
Dividends receivable due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**648**	648
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**32,515**	3,855
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**24,344**	23,759
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**9,444**	7,678
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.	**–**	2,970
Hilong Temerso Co., Ltd.	**–**	1,737
	66,303	39,999
Prepayments to:		
Beijing Huashi Hilong Oil Investments Co., Ltd.	**3,500**	5,188
Trade payables due to:		
Hilong Oil Pipe Co., Ltd.	**40,934**	–
Jiangyan Hilong Wire Welding Co., Ltd.	**1,309**	689
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**–**	558
	42,243	1,247
Dividends payable due to:		
Hailong International	**–**	9,470

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

21 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

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

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

(b) Acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd.

On 8 May 2014, Hilong Group of Companies Ltd., a wholly owned subsidiary of the Group, acquired an additional 5% equity interest in Hilong Oil Service and Engineering Co., Ltd. at a consideration of RMB4,860,000. The carrying amount of the non-controlling interests in Hilong Oil Service and Engineering Co., Ltd. on the date of acquisition was RMB3,971,000. The Group recognised a decrease in non-controlling interests of RMB3,971,000 and a decrease in equity attributable to owners of the Company of RMB889,000. The effect of changes in the ownership interest of Hilong Oil Service and Engineering Co., Ltd. on the equity attributable to owners of the Company during the period is summarised as follows:

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

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

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

22 COMMITMENTS

(a) Capital commitments

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
Property, plant and equipment	**787,981**	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:

	(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
No later than 1 year	**7,620**	8,337
Later than 1 year and no later than 3 year	**10,920**	14,116
Later than 3 years	**10,790**	11,314
	29,330	33,767

OTHER INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder of Mr. Zhang's trust/ Interest of controlled corporation	901,723,000(1)	53.16%
	Founder of three Mr. Zhang's family trusts/Interest of controlled corporation	112,000,800(2)	6.60%
	Beneficial owner	760,000	0.04%
Ms. Zhang Shuman	Interest of controlled corporation	24,000,000(3)	1.41%
	Beneficial owner	492,000	0.03%
Mr. Yuan Pengbin	Beneficial owner	761,600	0.04%
Mr. Wang Tao (汪濤)	Beneficial owner	1,000,000	0.06%
Mr. Lee Siang Chin	Interest of controlled corporation	800,000(4)	0.05%

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) 24,000,000 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) These shares are held by Stenying Holdings Ltd. in which Mr. Lee Siang Chin has 50% control. Mr. Lee Siang Chin is therefore deemed to be interested in these shares.

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

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

OTHER INFORMATION

2) Substantial shareholders' interest or short positions in the securities of the Company

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

Name of substantial shareholder	Capacity	Number of shares/ underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	901,723,000[(1)]	53.16%
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	1,015,083,800[(3)]	59.85%
The Capital Group Companies, Inc.	Interest of controlled corporation	102,237,000[(4)]	6.03%

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) 24,000,000 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) 30,598,000 shares, 21,578,000 shares, 2,214,000 shares and 47,847,000 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 The Capital Group Companies, Inc.. The Capital Group Companies, Inc. is therefore deemed to be interested in these shares.

PRE-IPO SHARE OPTION SCHEME

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

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

	Number of share options								
Category/name of grantees	Outstanding as at 1 January 2014	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 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	–	(745,600)	(887,600)	25,657,500	2.60	5.03	1 January 2011	21 April 2012– 31 December 2020
Total	33,430,700	–	(745,600)	(887,600)	31,797,500				

POST-IPO SHARE OPTION SCHEME

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

	Number of share options									
Category/ name of grantee	Outstanding as at 1 January 2014	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 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	–	(245,100)	19,734,900	5.93	5.72	–	5 February 2014	5 February 2015 – 4 February 2024

OTHER INFORMATION

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

On 16 September 2013, the Company as borrower entered into a facility agreement with, amongst others, Deutsche Bank AG, Singapore branch, The Hongkong and Shanghai Banking Corporation Limited and other lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$147,250,000 and a Hong Kong dollar term loan facility in the amount of HK$408,812,500, with final maturity of 36 months after the date of the facility agreement. The facility agreement contains specific performance obligations imposed on Mr. Zhang Jun to the effect that Mr. Zhang Jun shall continue, during the term of the facility agreement, (i) to maintain, directly or indirectly, not less than 55% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board. A breach of any of such obligations will constitute an event of default under the facility agreement. In April 2014, the Company obtained consent from majority lenders to lower the minimum requirement of the beneficial shareholding interest of Mr. Zhang Jun in relation to (i) above from 55% to 50%.

On 28 April 2014, the Company as borrower entered into another facility agreement with, amongst others, The Hongkong and Shanghai Banking Corporation Limited and other lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$74,000,000 and a Hong Kong dollar term loan facility in the amount of HK$201,500,000, with final maturity of 48 months after the date of the facility agreement. The facility agreement contains specific performance obligations imposed on Mr. Zhang Jun to the effect that Mr. Zhang Jun to continue, during the term of the facility agreement, (i) to maintain, directly or indirectly, not less than 50% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board. A breach of any of such obligations will constitute an event of default under the facility agreement.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules throughout the Interim Period, except that in respect of code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer of the Company are not separate and both are performed by Mr. Zhang Jun. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting of the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company.

Model Code for Securities Transactions by Directors of Listed Issuers

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

REVIEW OF INTERIM REPORT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

APPRECIATION

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

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

22 August 2014