海隆控股有限公司*

Hilong Holding Limited

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

* For identification purpose only



EVOLVING TO CATCH THE

FUTURE GROWTH

ANNUAL REPORT 2013

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors of Hilong Holding Limited ("Hilong", "we" or the "Company"), I hereby present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013 to our shareholders.

RESULTS

The Group achieved steady growth in 2013 and realized an increase of 8% in revenue to RMB2,452 million. The oilfield services segment recorded the most significant growth, with total revenue of RMB873 million, representing an increase of 41%. Sales of coating materials and services segment amounted to RMB629 million and remained steady as compared with 2012. Drill pipes and related products segment generated revenue of RMB951 million, which is slightly lower than that of 2012. The Non-GAAP net profit attributable to equity owners of the Company in 2013, which reflected the actual operational results, increased to RMB425 million with a year-on-year growth of 13%.

YEAR UNDER REVIEW

The past 2013 marks a very important year for the Group in its history of development. While maintaining steady financial growth, Hilong also made progress in terms of improving the business structure, promoting the high-end products and services, expanding into the new markets and strengthening corporate governance. The oilfield services segment realized growth in diversed areas in 2013. The segment not only achieved tremendous growth in drilling business, but also in providing comprehensive services. The services agreement with Shell to provide 3,000HP high temperature and high pressure drilling services and workover services testified the strength of Hilong's oilfield services in the international markets and also demonstrated the Group's further advance in the higher-end oilfield services business area. Other than strengthening the cooperation with the existing renowned international customers, Hilong also established good relationships with United Energy Petroleum and other new customers and successfully entered into the Pakistan market in 2013. The coating materials and services segment has seen notable results from the structural adjustment in 2013 with substantially improved profitability. OCTG coating services achieved remarkable growth mainly driven by the expanded capacity of the new coating services plant. We started production of the newly developed Concrete Weighted Coating (CWC) and successfully built up track record. Hilong also made breakthrough in processing large caliber Corrosion Resistant Alloy (CRA) Lined Pipe and successfully turned into a large caliber CRA supplier. We also enhanced our presence in the high-end overseas markets for the traditional line pipe coating services. In 2013, the segment of drill pipes and related products remained steady and maintained its leading and stable market position both domestically and globally. In the PRC market, Hilong remained China Petroleum & Chemical Corporation's (Sinopec) sole strategic supplier of drill pipes and has continuously secured a significant share of the drill pipe procurement by China National Petroleum Corporation (CNPC) as one of its main suppliers. Internationally, Hilong's excellent technical advantages have also been widely recognized by international customers such as Weatherford International and Nabors Industries Ltd. We also made remarkable progress in market penetration through our overseas sales centers and successfully established leading position in the markets of Canada, Russia, Central Asia and East Europe. Our continuous efforts in developing and promoting the high-end Non-API drill pipe products lead to the increased percentage of Non-API drill pipes in the product mix to 32% from 29% in 2012. Acceptance of Non-API products from overseas customers also improved significantly along with the further optimized product structure.

PROSPECTS

Along with the growing demand for oil & gas resources driven by the global economic development, exploration and production of offshore oil & gas resources has become the latest trend in the oil & gas development industry. As the global leading integrated oilfield equipment and services provider, Hilong also looked into the opportunities in the offshore oil & gas development business. The newly purchased pipe-lay vessel "Hilong 106" will serve as the starting point for our march into the offshore engineering services field. Meanwhile, in relation to our existing businesses, we will focus on increasing the revenue contribution from service provision and high-end products and services, and expanding overseas. In 2014, we will strategically focus on enhancing the return on capital by increasing the comprehensive services for oilfield services segment. Also, we plan to expand the fleet of premium drilling rigs in accordance with market demand. We will further complete our transition to a one-stop comprehensive services supplier and turnkey contractor. For coating services business, we plan to further expand our OCTG service capacity by constructing new plants at selected strategic sites, concentrate on developing CRA and CWC businesses, and launch line pipe inspection business to further increase our presence along the line pipe services value chain. Leveraging on our existing advantages in production and coating services of drill pipes, we will make great efforts in providing related services including lease, inspection and repair of the drill pipes.

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

APPRECIATION

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

Zhang Jun
Chairman

Hong Kong, 21 March 2014

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

PricewaterhouseCoopers

COMPLIANCE ADVISER

Guotai Junan Capital Limited*

REGISTERED OFFICE

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PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER

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Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3206, Tower One
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

STOCK CODE

1623

WEBSITE AND CONTACT

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* Guotai Junan Capital Limited ceased to be the compliance adviser of the Company at the end of April 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2013		2012	
	RMB'000	%	RMB'000	%
Drill pipes and related products				
– Drill pipes	**808,580**	**33.0**	927,163	40.9
– Drill pipe components	**82,981**	**3.4**	26,770	1.2
– Hardbanding	**13,160**	**0.5**	12,113	0.5
– Equipment	**1,291**	**0.1**	16,182	0.7
– Others	**44,668**	**1.8**	28,640	1.3
Subtotal	**950,680**	**38.8**	1,010,868	44.6
Coating materials and services				
Oil Country Tubular Goods ("OCTG")				
– Coating materials	**33,092**	**1.3**	34,796	1.5
– Coating services	**263,738**	**10.8**	201,230	8.9
Oil and gas line pipe				
– Coating materials	**79,927**	**3.3**	180,361	8.0
– Coating services	**252,332**	**10.3**	219,478	9.7
Subtotal	**629,089**	**25.7**	635,865	28.1
Oilfield services	**872,589**	**35.5**	617,640	27.3
Total revenue	**2,452,358**	**100.0**	2,264,373	100.0

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

	Year ended 31 December			
	2013		2012	
	RMB'000	%	RMB'000	%
The PRC	**1,219,740**	**49.7**	1,273,121	56.2
North and South America	**604,049**	**24.6**	510,009	22.5
Russia, Central Asia and East Europe	**240,057**	**9.8**	219,822	9.7
West Africa	**219,947**	**9.0**	156,191	6.9
Middle East	**85,781**	**3.5**	92,346	4.1
Others	**82,784**	**3.4**	12,885	0.6
	2,452,358	**100.0**	2,264,373	100.0

Revenue increased by RMB188.0 million, or 8.3%, from RMB2,264.4 million in 2012 to RMB2,452.4 million in 2013. Such increase primarily reflected an increase in revenue from oilfield services segment.

Drill pipes and related products. Revenue from the drill pipes and related products segment decreased by RMB60.2 million, or 6.0%, from RMB1,010.9 million in 2012 to RMB950.7 million in 2013. Such decrease primarily reflected a decrease in revenue derived from sales of drill pipes, partially offset by an increase in revenue derived from sales of drill pipe components.

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

	Year ended 31 December	
	2013	2012
Sales of drill pipes		
– International market		
– volume (tons)	**13,665**	15,213
– unit price (RMB/ton)	**23,402**	24,540
Subtotal (RMB'000)	**319,777**	373,337
– The PRC market		
– volume (tons)	**20,997**	22,194
– unit price (RMB/ton)	**23,280**	24,954
Subtotal (RMB'000)	**488,803**	553,826
Total (RMB'000)	**808,580**	927,163

Revenue from sales of drill pipes in the international market decreased by RMB53.5 million, or 14.3%, from RMB373.3 million in 2012 to RMB319.8 million in 2013. The decrease reflected a 10.2% decrease in the volume of drill pipes sold from 15,213 tonnes in 2012 to 13,665 tonnes in 2013 and a 4.6% decrease in the average selling price in the international market from RMB24,540 per tonne in 2012 to RMB23,402 per tonne in 2013. The decrease in the sales volume primarily reflected less drill pipes sold to the North America market. The decrease in the average selling price primarily reflected a higher portion of revenue from Russia and East Europe where drill pipes are generally sold at a lower price compared to other regions.

Revenue from sales of drill pipes in the PRC market decreased by RMB65.0 million, or 11.7%, from RMB553.8 million in 2012 to RMB488.8 million in 2013. The decrease reflected a 6.7% decrease in average selling price sold in the PRC market from RMB24,954 per tonne in 2012 to RMB23,280 per tonne in 2013, and a 5.4% decrease in volume of drill pipes sold in the PRC market from 22,194 tonnes in 2012 to 20,997 tonnes in 2013. The decrease in average selling price primarily reflected the fact that (i) we processed over 1,000 tonnes of drill pipes with consigned tool joints provided by customers in 2013. These drill pipes were sold at lower prices and with lower costs, while the gross profit margin remained at the same level as that of other drill pipes; and (ii) steel prices decreased in 2013 compared to that in 2012. The decrease in the sales volume primarily reflected that the Group sold around 3,500 tonnes drill pipes to certain domestic drilling rig manufacturers for their rigs sales to South America in 2012 while we have not done similar order in 2013, partially offset by the Group's continuous effort to promote customized drill pipes in the PRC market.

Revenue from sales of drill pipe components increased by RMB56.2 million, from RMB26.8 million in 2012 to RMB83.0 million in 2013. The increase primarily reflected (i) the Group's continuous effort to promote customized drill pipe components in both international and the PRC market, and (ii) increase of revenue from green pipes sold by Nantong Hilong, which has become a subsidiary of the Group since July 2013.

Coating materials and services. Revenue from the coating materials and services segment remained stable in 2013, primarily reflecting an increase in the revenue derived from OCTG coating services, and to a lesser extent, from oil and gas line pipe coating services, offset by a decrease in the revenue derived from oil and gas line pipe coating materials.

The increase in revenue from OCTG coating services primarily reflected an increase in our manufacturing capacity and utilization rate in providing OCTG coating services coupled with a higher market penetration for OCTG coating services in 2013 as compared to that in 2012.

The increase in revenue from oil and gas line pipe coating services primarily reflected several large and complicated oil and gas line pipe coating projects we completed in 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.

Oilfield services. Revenue from the oilfield services segment increased by RMB255.0 million from RMB617.6 million in 2012 to RMB872.6 million in 2013. Such increase was attributable to (i) higher oilfield services revenue earned as more drilling rigs were on-site in 2013 as compared to that in 2012 and (ii) the increase in trading revenue of tubing and casing products purchased from third parties to oilfield services customers.

Cost of Sales/Services

Cost of sales increased by RMB95.3 million, or 7.0%, from RMB1,369.1 million in 2012 to RMB1,464.4 million in 2013. Such increase primarily reflected an increase in depreciation of drilling equipments and other related costs associated with the expansion of oilfield services segment, partially offset by a decrease in cost of raw materials associated with the decrease in revenue from drill pipes and coating materials in 2013 compared with that in 2012.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit increased by RMB92.7 million, or 10.4%, from RMB895.3 million in 2012 to RMB988.0 million in 2013. Gross margin increased from 39.5% in 2012 to 40.3% in 2013. The increase in gross margin primarily reflected the increase in gross margin from coating materials and services segment.

Gross margin of coating materials and services segment increased from 41.3% in 2012 to 49.0% in 2013, reflecting a higher portion of revenue derived from coating services, which generally have higher gross margin.

Selling and Marketing Expenses

The percentage of selling and marketing expenses to revenue decreased from 5.2% in 2012 to 4.3% in 2013. Such decrease primarily reflected better control on selling and marketing expenses of the Group, and higher portion of revenue derived from oilfield services segment, which generally has lower selling and marketing expenses to revenue ratio.

Administrative Expenses

Administrative expenses decreased by RMB6.0 million, or 2.1%, from RMB285.6 million in 2012 to RMB279.6 million in 2013. Such decrease primarily reflected the decrease of provision for impairment provision of receivables, partially offset by the increase in research and development expenses incurred in coating materials and services segment.

Other Losses – net

The Group recognized net loss of RMB14.9 million in 2012 and RMB100.2 million in 2013. The net loss recognized in 2013 primarily reflected (i) a loss of RMB74.0 million in changes in fair value of the embedded derivative of the convertible bonds, and (ii) a net loss of RMB41.5 million in foreign exchange losses, partially offset by RMB14.4 million in government grants in relation to new and high-technology projects. The net loss recognized in 2012 primarily reflected (i) a loss of RMB20.7 million in changes in fair value of the embedded derivative of the convertible bonds, and (ii) a net loss of RMB4.9 million on disposal of property, plant and equipment, partially offset by RMB13.2 million in government grants in relation to new and high-technology projects. The increase in foreign exchange losses reflected that (i) the deprecation of USD and CAD against RMB in 2013; (ii) increase in foreign exchange losses arose from inter-company transaction balances between the Company's subsidiaries with different functional currency. These exchange losses remain unrealized but cannot be eliminated on consolidation though the underlying transactions have been eliminated; and (iii) the management increased USD debt to naturally hedge the foreign exchange exposure of USD monetary assets, while such foreign exchange differences for USD debt were recognized in finance costs – net.

Finance Costs – net

Finance costs – net decreased by RMB8.9 million, or 12.5%, from RMB71.7 million in 2012 to RMB62.8 million in 2013. Such decrease primarily reflected the (i) increase of foreign exchange gain related to bank borrowings denominated in currency other than the Company's functional currency, (ii) decrease of interest in relation to the liability component of convertible bonds due to the conversion to shares of the Company, partially offset by the increase in interest expense on bank borrowings due to increase of bank borrowings in 2013.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB406.6 million in 2012 to RMB442.2 million in 2013.

Income Tax Expense

The Group recognized income tax expense of RMB45.1 million in 2012 and RMB71.7 million in 2013. Effective tax rate was approximately 11.1% in 2012 and 16.2% in 2013.

Profit for the Year

As a result of the foregoing, profit for the year increased from RMB361.4 million in 2012 to RMB370.5 million in 2013.

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 2013 and 2012 to the nearest measures prepared in accordance with HKFRS:

	Year ended 31 December 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	**504,194**	**3,539**	**73,960**	**2,984**	**584,677**
Profit before income tax	**442,205**	**3,539**	**73,960**	**2,984**	**522,688**
Profit attributable to equity owners of the Company	**344,630**	**3,539**	**73,960**	**2,984**	**425,113**
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	**0.2073**				**0.2557**

	Year ended 31 December 2012				
		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	477,526	9,111	20,716	–	507,353
Profit before income tax	406,573	9,111	20,716	–	436,400
Profit attributable to equity owners of the Company	345,001	9,111	20,716	–	374,828
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	0.2168				0.2355

Notes:

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

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

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

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

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

The non-GAAP operating profit, non-GAAP profit before income tax and non-GAAP profit attributable to equity owners of the Company increased by 15.2%, 19.8% and 13.4% respectively in 2013 compared to that of 2012. The increase primarily reflected that (i) revenue increased by 8.3% in 2013 compared to that in 2012, and (ii) gross margin increased from 39.5% in 2012 to 40.3% in 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 years indicated:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Inventory	**737,725**	586,344
Turnover days of inventory (in days)[1]	**165**	146

[1] Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2012 and 2013. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase in inventory turnover days from 146 days as at 31 December 2012 to 165 days as at 31 December 2013 primarily reflected an increase in inventory balance associated with (i) an accretion of inventory balances of Nantong Hilong, a subsidiary acquired by the Group in the second half of 2013, (ii) an increase of raw materials and finished drill pipes for drill pipes and related products segment as certain orders are scheduled to be delivered in following months, and (iii) an increase of inventory for oilfield services segment due to more drill rigs were on-site in 2013.

Trade and Other Receivables

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade receivables		
– Due from third parties	**1,159,957**	1,041,354
– Due from related parties	**30,821**	26,282
– Less: Provision for impairment of receivables	**(20,000)**	(23,383)
Trade receivables-net	**1,170,778**	1,044,253
Other receivables		
– Due from third parties	**88,403**	53,805
– Due from related parties	**39,999**	65,860
Other receivables	**128,402**	119,665
Bills receivable	**105,781**	72,799
Prepayments	**128,802**	148,508
Dividend receivables	**648**	–
Total	**1,534,411**	1,385,225

Net trade receivables represent receivables from the sales of products and provision of services to third party customers and related parties, less impairment of receivables. The following table sets forth an aging analysis of trade receivables due from third party and related parties as at the dates indicated and turnover days of the net trade receivables as at the dates indicated:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**804,505**	748,401
– Over 90 days and within 180 days	**121,358**	112,495
– Over 180 days and within 360 days	**115,478**	81,418
– Over 360 days and within 720 days	**91,221**	82,096
– Over 720 days	**58,216**	43,226
	1,190,778	1,067,636
Turnover days of trade receivables, net[(1)]	**165**	166

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2012 and 2013. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

As at 31 December 2013, trade receivables of RMB366.3 million, representing 30.8% of the Group's trade receivables before impairment, remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from subsidiaries' related party entities. As at the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

Trade and Other Payables

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bills payable	**142,126**	130,176
Trade payables		
– Due to related parties	**1,247**	–
– Due to third parties	**339,710**	266,461
Other payables		
– Due to third parties	**73,828**	42,316
Staff salaries and welfare payables	**29,489**	34,097
Advance from customers	**24,290**	82,757
Interest payables	**2,798**	1,456
Accrued taxes other than income tax	**24,691**	9,537
Dividends payable	**11,857**	10,933
Other liabilities	**11,212**	5,042
	661,248	582,775

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade payables, gross		
– Within 90 days	**310,169**	136,215
– Over 90 days and within 180 days	**7,043**	36,435
– Over 180 days and within 360 days	**2,560**	85,149
– Over 360 days and within 720 days	**19,477**	5,361
– Over 720 days	**1,708**	3,301
	340,957	266,461
Turnover days of trade payables[1]	**76**	79

[1] Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2012 and 2013. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

As at 31 December 2013, long aging trade payables primarily included warranty retention money related to procurement of equipments and construction of facilities.

BUSINESS REVIEW

In 2013, the Group achieved satisfactory progress. As compared with 2012, revenue of the Group in 2013 increased by 8% to RMB2,452 million and the Non-GAAP net profit attributable to equity owners of the Company, which reflected the actual operational results, increased by 13% to RMB425 million. While maintaining steady financial growth, the Group also made progress in terms of improving the business structure, promoting the high-end products and services, expanding into the new markets and strengthening corporate governance. In particular, the revenue contribution from service provision including oilfield services and coating services continued to increase in 2013, which reflected Hilong's consistent strategy of integrated development of products and services and demonstrated Hilong's significant achievement in focusing on the extension and expansion of the high-end services businesses.

Oilfield services segment

2013 saw another year of substantial growth for Hilong's oilfield services segment. While maintaining high gross profit margin, sales of oilfield services segment during the year amounted to RMB873 million, representing an increase of 41% from 2012. Oilfield services is still the fastest growing business segment of the Group and has remained the Group's strongest growth driver.

In 2013, oilfield services segment realized growth in diversed areas. The segment not only achieved tremendous growth in the drilling business, but also in providing comprehensive services. As of the end of 2013, the Group has a fleet of 12 drilling rigs (including one 3,000HP high temperature, high pressure drilling rig[1], seven 2,000HP drilling rigs and two 1,500HP drilling rigs) and 3 workover rigs. All these high-end equipment ensured superior operating efficiency of Hilong's drilling team, provided strong support for Hilong to develop comprehensive oilfield services, and laid a solid foundation for the Group to focus on high-end oilfield services. In 2013, Hilong received recognition and rewards for its oilfield services from various customers in the overseas markets, which testified Hilong team's outstanding performance.

During the past year, Hilong continued to explore new overseas markets for its oilfield services segment. While maintaining our leading market position in the existing markets such as Ecuador, Nigeria and Kazakhstan, Hilong successfully entered into Pakistan with one 2,000HP drilling rig and one 1,500HP drilling rig which commenced drilling services in the second half of 2013. This signifies that Hilong has successfully marched into another important emerging market.

The outstanding performance of our oilfield services business in our major overseas markets not only retained the existing customers to maintain and deepen the cooperation with us, but also attracted new customers to engage Hilong's services. In 2013, Hilong signed a four-year oilfield services agreement with The Shell Petroleum Development Company of Nigeria Limited to provide 3,000HP high temperature and high pressure land drilling services and workover services. The drilling rig required in the contract is not only Hilong's but also China's first 9,000 meters alternating current variable frequency electric drilling rig operated overseas. It is also the first high temperature and high pressure ultra-deep drilling rig employed by Shell in the world. The services agreement with Shell represented a major breakthrough of the Group in its oilfield services development in terms of the advanced technologies involved, the large scale of operations and the length of service period. In addition to strengthening the cooperation with the existing renowned international customers such as Shell and Schlumberger, Hilong also successfully established good relationships with United Energy Petroleum and other new customers.

Coating materials and services segment

The structural adjustment of the coating materials and services segment has seen notable results in 2013. The segment recorded total revenue of RMB629 million, which remained steady as compared with 2012. In the meantime, the gross profit margin increased substantially to 49% from 41% in 2012, reflecting the increased contribution from high profit margin businesses including OCTG coating materials and services and the newly developed line pipe coating services such as CRA. OCTG coating services, the most profitable business within the segment, recorded a growth of 31%, which can be largely attributed to the expanded capacity of the new OCTG coating services plants that commenced operation in 2013, the improved efficiency of existing capacity, and the Group's continuous effort in promoting the application of coating materials to tubing and casing.

1 *The services contract was signed in 2013 and the drilling rig has already commenced operation on 27 February, 2014.*

In respect of the line pipe coating services, the facility of CWC commenced production in 2013 and quickly made breakthrough. Hilong successfully secured a contract to provide CWC for an offshore gas field project from China National Offshore Oil Corporation (CNOOC) and received positive feedback from CNOOC, indicating that Hilong is capable of developing offshore line pipe coating services business. Hilong also made significant breakthrough in processing large caliber CRA lined pipe and won several large caliber CRA lined pipe orders, including the ones for the Tarim Oilfield and successfully turned into a supplier of large caliber CRA services.

In relation to the traditional line pipe coating services business, the Group actively reallocate the marketing resources according to the market dynamics and make strong efforts in tapping into the overseas markets. In 2013, Hilong successfully enhanced its presence in the high-end overseas markets for its traditional line pipe coating services business through securing high profile orders. Meanwhile, the Group controlled the development of the line pipe coating materials in accordance with the market conditions, concentrated on developing high profit margin businesses and enhanced the profitability of the entire coating materials and services segment.

Drill pipes and related products segment

The drill pipes and related products segment remained steady in 2013. Although the revenue of RMB951 million slightly decreased from that of 2012, the segment still maintained its steady and leading market positions in both domestic and international markets, as well as a stable gross profit margin. In the PRC market, Hilong remained Sinopec's sole strategic supplier of drill pipes; as one of the main suppliers to CNPC, we continuously secured a significant share in its total purchase of drill pipes. Internationally, Hilong's excellent technical advantages have been widely recognized by international customers. We also made remarkable progress in market penetration through our overseas sales centers and successfully established leading position in the markets of Canada, Russia, Central Asia and East Europe. We provided drill pipes to Weatherford International and Nabors Industries Ltd. and established sustainable relationships with these customers and other well-known global companies in the oil & gas and related industries, which demonstrated Hilong's strong market development capabilities.

As for product structure, Hilong has been focusing on the development and promotion of high-end Non-API drill pipes. In 2013, we successively received Non-API drill pipe products orders from both domestic and international renowned customers and there has been a growing acceptance of Hilong's Non-API drill pipe products from overseas customers. As a result, the product structure of the segment has been further optimized with the percentage of Non-API drill pipes increased to 32% from 29% in 2012. Furthermore, sales of the customized drill pipe components have increased considerably and also boosted the sales of Non-API drill pipe products.

Research and development

Strong research and development ("R&D") capability has always been one of the key supporting factors for Hilong to maintain its competitiveness and its leading market position. In 2013, the Group has once again made significant progress in terms of R&D. Shanghai Hilong Petroleum Tubular Goods Research Institute launched 12 R&D projects in total, including 7 new products and 5 continuous research and improvement, which are mainly targeted to the development of drill pipes applicable to complicated geological conditions and intelligent drill pipes. These research programs closely follow the industry need of oil & gas development and steer the R&D trend. Established in 2013 and focusing on R&D of specialized coating materials for OCTG and line pipes, Shanghai Hilong Petrochemical Research Institute launched 11 R&D projects, including 5 new products and 6 continuous research and improvement. These research programs also conform with the industry's future demand and lead the industry trend. We applied 33 patents in 2013 with 15 patents authorized.

PROSPECTS

Hilong aims at establishing a dynamic and integrated business system along with the oil and gas value chain covering products and services, and onshore and offshore operations. In 2014, we will continue to build up the business system and achieve greater synergies among the business segments to realize more remarkable growth.

For our existing business segments, we will focus on increasing the revenue contribution from service provision and high-end products and services, and expanding overseas. In 2014, our strategic focus for the oilfield services segment is to enhance the return on capital by increasing the comprehensive services. Also, we plan to expand the fleet of premium drilling rigs in accordance with market demand. We will further complete the transition to being a one-stop comprehensive services supplier and turnkey contractor. For OCTG coating, we plan to further expand our service capacity by constructing new plants at selected strategic sites. CRA and CWC will be the focus for line pipe coating business in the future. Our newly introduced line pipe inspection business employs the internationally leading inspection technologies, has huge market potentials, and will further increase our presence along the line pipe services value chain. For the drill pipes and related products segment, in addition to improving the products, we will make great efforts in providing related services including lease, inspection and repair of the drill pipes. This service-driven business model will deepen the cooperation with the oilfields, promote high-end products and expand the revenue sources.

In 2014, we are also commencing new services, in particular, the offshore engineering services. The pipe-lay vessel"Hilong 106" will be delivered soon to us and it is expected to start operation in 2014. Its maximum operating water depth of 8 to 300 meters and maximum hoisting capacity of 3,000 tons make Hilong 106 one of the leading pipe-lay vessels in the PRC market. Hilong 106 will mainly work for pipe laying and craning orders in areas under 300 meters depth. The launch of the offshore engineering services segment marks the important start of the transition from onshore operation to offshore operation for Hilong oilfield services. We firmly believe in the promising prospect of the development of offshore oil & gas resources and Hilong's huge potential in this industry.

Looking ahead into 2014, we believe that, with our endeavors, Hilong will create greater values for our shareholders.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Net cash from operating activities	**174,022**	353,180
Net cash used in investing activities	**(500,661)**	(295,692)
Net cash from financing activities	**322,683**	20,946
Net increase in cash and cash equivalents	**(3,956)**	78,434
Exchange gains/(losses) on cash and cash equivalents	**(9,117)**	28
Cash and cash equivalents at beginning of the year	**403,962**	325,500
Cash and cash equivalents at end of the year	**390,889**	403,962

Operating Activities

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

Net cash from operating activities in 2012 was RMB353.2 million, representing cash generated from operations of RMB437.1 million, partially offset by the interest payment of RMB45.4 million and income tax payment of RMB38.5 million.

Investing Activities

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

Net cash used in investing activities in 2012 was RMB295.7 million, primarily reflecting payment of RMB377.1 million for purchases of property, plant and equipment, partially offset by proceeds of RMB96.9 million from disposal of property, plant and equipment.

Financing Activities

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

Net cash generated from financing activities in 2012 was RMB20.9 million, primarily reflecting proceeds of RMB799.8 million from borrowings, offset by (i) repayment of borrowings of RMB650.5 million, (ii) dividends payment of RMB89.0 million, and (iii) net cash out flow of RMB27.8 million arising from security deposit for bank borrowings.

Capital Expenditures

Capital expenditures were RMB367.0 million and RMB519.5 million in 2012 and 2013 respectively. Capital expenditures in 2013 were primarily made in connection with purchase of drilling rigs and pipe-lay barge for oilfield services segment, and construction facilities in Shanghai and Sichuan for coating materials and services segment. Capital expenditures in 2012 were primarily made in connection with purchase of drilling rigs for oilfield services segment, and construction facilities in Shanghai and Canada for coating materials and services segment.

Indebtedness

As at 31 December 2013, the outstanding indebtedness of RMB1,160.7 million was mainly denominated in USD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2013 **RMB'000**	2012 RMB'000
Non-current		
Convertible bonds	**–**	204,903
Bank borrowings – unsecured	**484,676**	–
Bank borrowings – secured	**22,000**	88,068
	506,676	292,971
Current		
Bank borrowings – secured	**140,694**	184,290
Bank borrowings – unsecured	**513,310**	461,971
	654,004	646,261
	1,160,680	939,232

The bank borrowings of RMB65.1 million were secured by certain machinery and equipment and bank deposits of the Group, with a carrying amount of RMB47.1 million and RMB39.1 million respectively as at 31 December 2013.

The bank borrowings of RMB50.0 million were secured by certain bank deposits of the Group, with a carrying amount of RMB15.0 million as at 31 December 2013.

The bank borrowings of RMB47.6 million were secured by certain machinery and equipment of the Group, with a carrying amount of RMB90.2 million as at 31 December 2013.

Gearing Ratio

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

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

The gearing ratios as at 31 December 2013 and 2012 are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Total borrowings	**1,160,680**	939,232
Less: Cash and cash equivalents	**(390,889)**	(403,962)
Net debt	**769,791**	535,270
Total equity	**2,873,587**	2,305,434
Total capital	**3,643,378**	2,840,704
Gearing ratio	**21.13%**	18.84%

The slight increase in the gearing ratio as at 31 December 2013 when compared to the gearing ratio as at 31 December 2012 primarily resulted from the increase in the balance of borrowings in 2013.

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 26.4% appreciation of RMB against the USD from 21 July 2005 to 31 December 2013. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in further and more significant appreciation 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 natural 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 31.5% and 37.7% of the total revenue of the Company in 2012 and 2013, respectively.

Material Acquisitions

On 22 March 2013, pursuant to the Share Transfer Agreement between Hilong Group of Companies Ltd. and Zhongxing Energy Equipment Co., Ltd., Hilong Group of Companies Ltd. purchased 44% equity interest in Nantong Hilong at an aggregate consideration of RMB35.2 million. After the acquisition, the Group's effective equity interest in Nantong Hilong increased from 41% to 85%, resulting in Nantong Hilong becoming a subsidiary of the Group. The Group paid RMB23.0 million for the acquisition in 2013. The acquisition was completed on 17 July 2013.

Staff and Remuneration Policy

As at 31 December 2013, the total number of full-time employees employed by the Group was 2,117 (31 December 2012: 2,088). The following table sets forth the number of the Group's fulltime employees by area of responsibility as at 31 December 2013:

On-site workers	1,311
Administrative	336
Research and development	139
Technical support	177
Company management	39
Sales, marketing and after-sales services	115
	2,117

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 basing 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. During 2013, the Company did not grant any options under this scheme. On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this annual report, none of the share options granted has been exercised.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

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

Name	Age	Management Position
ZHANG Jun (張軍)	46	Chairman, executive Director and chief executive officer
WANG Tao (汪濤)	50	Executive Director and executive president
JI Min (紀敏)	38	Executive Director and chief financial officer
ZHANG Shuman (張姝嫚)	40	Non-executive Director and chief strategy officer
YUAN Pengbin (袁鵬斌)	55	Non-executive Director
LI Huaiqi (李懷奇)	64	Non-executive Director
WANG Tao (王濤)	67	Independent Non-executive Director
LIU Qihua (劉奇華)	48	Independent Non-executive Director
LEE Siang Chin	65	Independent Non-executive Director
LIU Haisheng (劉海勝)	67	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 46, is an Executive Director, the chairman of the Board and chief executive officer of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. As the chief executive officer, Mr. Zhang is responsible for the overall business operations and strategy formulation of the Company. Mr. Zhang has over 21 years of experience in the petroleum industry. From 2001 to 2007, he engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. In the position of vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was awarded one of the "Top 10 Influential Leaders in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009" (2009中國石油石化裝備製造業十大最具影響力領軍人物) by the National Energy Commission (國家能源委員會). Mr. Zhang is the brother of Ms. Zhang Shuman, Non-executive Director, chief strategy officer and joint company secretary of the Company and he is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

Mr. WANG Tao (汪濤), aged 50, is an Executive Director, Executive President and a member of the nomination committee of the Company. He was appointed as Non-executive Director on 2 December 2010 and was re-designated as an Executive Director on 29 March 2012. He also serves as directors of Hilong Drilling & Supply FZE and Hilong Oil Services and Engineering Nigeria Limited since 2010. Mr. Wang has over 25 years of management experience in the petroleum industry and he served as vice general manager of Hilong Group of Companies Ltd. from 2006 to February 2012 and he acts as the executive president since February 2012. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991 and was responsible for on-site operation and business administration. From 1991 to 2001, he served as assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

Mr. JI Min (紀敏), aged 38, is an Executive Director and the chief financial officer of the Company. He was appointed as Executive Director of the Company on 2 December 2010. As chief financial officer, Mr. Ji is responsible for overall financial and corporate finance management of the Company. He worked for PricewaterhouseCoopers from 1997 to 2006 and served as its senior manager. He gained extensive experiences in auditing and client management and participated in the audit work of several initial public offerings in China, including the listing of PetroChina Company Limited (中國石油天然氣股份有限公司) on the Stock Exchange (stock code: 0857). Prior to joining the Group in 2010, Mr. Ji acted as finance director of The9 Limited, an online gaming operation and development company (NASDAQ: NCTY), where he was responsible for overall financial operation from 2006 to 2007. From 2007 to 2010, he served as vice president of T2CN Information Technology (Shanghai) Co., Ltd. (天聯世紀信息技術(上海)有限公司), an internet technology and service provider and was responsible for the financial, legal, human resources and administrative management. Mr. Ji received a Bachelor's degree in Accounting from Shanghai Jiao Tong University (上海交通大學) in 1997. He is a member of the Chinese Institute of Certified Public Accountants.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 40, is a Non-executive Director, the chief strategy officer, joint company secretary and a member of the audit committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as Executive Director on 2 December 2010. She was re-designated as a Non-executive Director of the Company on 29 March 2012. Ms. Zhang has over 17 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003. Ms. Zhang is primarily responsible for the financing activities and strategic investment activities of the Group. She has been a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. From 2003 to 2006, Ms. Zhang acted as the joint secretary to the board of directors and coordinator of a China joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the sister of Mr. ZHANG Jun, Executive Director, chairman of the Board, chief executive officer and substantial and controlling shareholder of the Company.

Mr. YUAN Pengbin (袁鵬斌), aged 55, is a Non-executive Director and a member of the remuneration committee of the Company. He was appointed as Non-executive Director on 2 December 2010. He serves as the chairman of the Board of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) since 2005, a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特(山西)石油管道塗層有限公司) since 2008, the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 2011 and a secretary of the party committee of Hilong Group of Companies Ltd. since July 2013. He has over 30 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the chairman and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd., the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所). He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011. Although Mr. Yuan will continue to hold managerial positions in our subsidiaries, his role at the Company level will be limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Center (中國石油天然氣集團公司石油管材研究所), where he was engaged in the applied research, quality control and technology supervision of petroleum tubular goods, from 1983 to 2005. He acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司). Mr. Yuan received a Bachelor's degree in Engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a Doctoral degree in Engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer (professor level) in heat treatment. Mr. Yuan is the vice president of the Association for Science and Technology of Bao Shan District, Shanghai, the member of the Association for Science and Technology of Shanghai, the deputy to the National People's Congress of Shanghai and the director of the Petroleum Pipeline Engineering Center of Shanghai (上海市石油管工程中心). Mr. Yuan had been elected as the technological talent and the leadership talent of the sixth session and the seventh session of Bao Shan District, Shanghai in 2010 and 2013, respectively, and had been elected as the leadership talent of Shanghai in 2011. He was also the member of the National Technical Committee for Refrigerating Machine Standardization of (全國試冷機標準化技術委員會) and the Failure Analysis Branch of Chinese Mechanical Engineering Society (中國機械工程學會失效分析分會). He enjoyed the special subsidy from the State Council of the People's Republic of China in 2012.

Mr. LI Huaiqi (李懷奇), aged 64, is a Non-executive Director of the Company. He was appointed as Non-executive Director on 26 August 2011. Mr. Li started to provide commercial and business consultation to the Company in 2012. He is a Senior Economist and is also the President of Chinese National Committee of World Petroleum Council. Mr. Li had been the Vice Chairman of the Listed Companies Association of Beijing. He was the Deputy Director-General of Advisory Center and Advisor of Expert Committee in China National Petroleum Corporation ("CNPC"). Mr. Li has nearly 40 years of experience in China's oil and natural gas industry. He had worked at Daqing Oilfield, Liaohe Oilfield, Huabei Oilfield of CNPC and China National Offshore Oil Corporation ("CNOOC") Nanhai East Corporation. In 1984, Mr. Li served as Deputy Director-General of the President's Office of CNOOC Nanhai East Corporation. From 1985 to 1990, he held positions as Director of Secretariat of Ministry of Petroleum Technology. From August 1990 to March 1992, he studied at the College of Economy of Texas A&M University in the United States. He was also the head of the First CNPC Senior Management's Training Class from August 1991 to February 1992. From June 1992, he served as Deputy Director-General and Director-General of the International Cooperation Department of CNPC. In August 2001, he was appointed as Secretary to the Board of PetroChina Co., Ltd. From June 2009, he assumed the positions of the Deputy-Director General of Advisory Center and Project Committee in CNPC. He assumed the current position as the President of Chinese National Committee of World Petroleum Council since July 2011. In 2008, Mr. Li was named "Top 100 Secretary to the Board" of Chinese Listed Companies by Securities Times. In 2009, he received the award of "Secretary to the Board of Golden Governance Social Responsibility Companies" by Shanghai Securities News and "Best Secretary to the Board Award" in the 9th Top 100 Chinese Listed Companies Summit hosted by Warton Economic Institute. He was also selected as "Excellent Secretary to the Board" in the annual appraisal for 2008-2009 by The Shanghai Stock Exchange.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 67, is an Independent Non-executive Director, the chairman of the remuneration committee, the chairman of the nomination committee and a member of the audit committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Wang has over 40 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械工業部5214廠) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and general manager, chairman and senior engineer (professor level) of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院, now known as Xidian University (西安電子科技大學)) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

Mr. LIU Qihua (劉奇華), aged 48, is an Independent Non-executive Director and a member of the nomination committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. From 1987 to 1995, Mr. Liu worked as an editor of Science Press Company Limited (科學出版社有限責任公司), an associate of Chinese Academy of Science (中國科學院). From 1995 to 1999, Mr. Liu served as a film director of China Intercontinental Communication Center (五洲傳播中心) of State Council Information Office of the PRC (中華人民共和國國務院新聞辦公室). He served as editor in chief of Panda TV and as director of Flying Rainbow Communication Co., Ltd. from 1995 to 1998. In 1999, Mr. Liu founded Beijing Dongfang Jiayuan Culture & Art Development Company Limited (北京東方家園文化藝術發展有限公司), a company engaged in the development of art and culture, and has been the managing director of the same company since then. Mr. Liu's experience in the State Council Information Office assists the Group in understanding governmental policies of the PRC, in particular those which may affect the industry which the company currently operates in. Mr. Liu received his Bachelor's degree in Science from Jilin University (吉林大學) in 1987.

LEE Siang Chin, aged 65, is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He was appointed as Independent Non-executive Director on 2 December 2010. Mr. Lee has over 40 years of experience in the provision of finance consultancy services for companies in Malaysia, London, Australia and Hong Kong.

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

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

Mr. LIU Haisheng (劉海勝), aged 67, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive Director on 21 December 2012. Mr. Liu is a Senior Economist of Professor level and an expert enjoying State Council special allowance. He is a party member of the Communist Party of China. Mr. Liu worked as Office Director of the Second Machinery Factory of China National Petroleum Corporation ("CNPC") Changqing Oil Field, Plant Director, Deputy Factory Director and Factory Director of the First Machinery Factory of China-North Oil Field, Deputy Director and Director of China-North Petroleum Bureau, Director of Planning Department and Assistant to General Manager of CNPC. He is a deputy to the 8th People's Congress of Hebei Province and a deputy to the 9th National People's Congress. Mr. Liu has over 36 years of experience in the petroleum industry and is expertise in machinery manufacturing, exploration and exploitation of oil fields, manufacturing and operation management of petrochemical enterprises. He has a high level knowledge of macro economy. Mr. Liu graduated from Beijing Institute of Petroleum in 1970.

SENIOR MANAGEMENT

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

Mr. CHEN Su (陳甦), aged 55, is the general manager of Hilong Group of Companies Ltd. since 2007 and a director of Hilong Oil Services and Engineering Co., Ltd. since 2008. Mr. Chen has over 30 years of experience in the petroleum industry. From 1982 to 2005, he worked in the department of steel pipe manufacturing of Baoshan Iron and Steel Company Limited (寶山鋼鐵股份有限公司) and served as its branch factory manager, deputy general manager and general manager. In 2005, he also served as the deputy general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). Mr. Chen received a Bachelor's degree in Engineering from Shanghai University of Technology (上海工業大學) in 1982.

Mr. DAI Daliang (代大良), aged 47, is a director of Hilong Drilling & Supply FZE since 2010, a director of Hilong Oil Services and Engineering Nigeria Limited since 2010 and a director and the general manager of Hilong Oil Service & Engineering Co., Ltd. since 2008. Mr. Dai has over 23 years of experience in the petroleum industry. Prior to joining our Group, from 1989 to 1995, Mr. Dai worked as engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司) and was engaged in drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司) and was engaged in international drilling cooperation. From 1996 to 2008, he worked for Greatwall Drilling Company Limited ("GWDC", 中油長城鑽井有限公司) as its co-manager of marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by GWDC. In 2008, he worked as assistant to general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's degree in Engineering from Central South University of Technology in 1990 and a Doctorate degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. CAO Yuhong (曹育紅), aged 44, is the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 21 years of experience in the petroleum industry. Prior to joining our Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau and served as its deputy manager of coating branch from 1996. Mr. Cao received a Bachelor's degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學) in 1991.

Mr. GAO Zhihai (高智海), aged 44, is the chairman and general manager of Shanghai Boteng Welding Consumables Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 17 years of experience in the petroleum industry. Prior to joining our Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received from Southwest Petroleum University (西南石油學院) a Bachelor's degree in Engineering in 1992 and a Master's degree in Engineering in 1995. Mr. Gao was named an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. XUE Zhijun (薛志軍), aged 50, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. Mr. Xue has over 8 years of experience in the petroleum industry. Prior to joining our Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as deputy manager of CNPC Bohai Petroleum Equipment Manufacturing Company Limited First Machinery Factory (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded an "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction" (國家西氣東輸工程建設先進個人) by National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and an "Outstanding Entrepreneur in Hebei Province" (河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

JOINT COMPANY SECRETARIES

Ms. CHENG Pik Yuk (鄭碧玉), aged 56, is a corporate services director of Tricor Services Limited, providing corporate secretarial services to client companies. Prior to joining the Tricor Group, she was a senior manager of the company secretarial department of Deloitte Touche Tohmatsu and also served as the departmental manager. Ms. Cheng has worked in the company secretarial departments of a number of international accounting firms and has over 30 years of experience in the company secretarial field. She has been providing corporate secretarial support services to listed companies and multi-national groups. Ms. Cheng is a Fellow Member of The Institute of Chartered Secretaries and Administrators in the U.K. and The Hong Kong Institute of Chartered Secretaries ("HKICS"), and is a holder of the Practitioner's Endorsement of the HKICS. She was appointed as a joint company secretary of the Company on 10 February 2011.

Ms. ZHANG Shuman (張姝嫚), aged 40, was appointed as a joint company secretary of the Company on 10 February 2011. Ms. Zhang has over 5 years of experience in corporate secretarial services. She acted as secretary to the board of directors of UMW Ace (L) Ltd. from 2003 to 2006. For further details regarding Ms. Zhang's experience, see "– BOARD OF DIRECTORS – Non-executive Directors" above.

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2013.

The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of corporate governance. The Company has applied the principles set out in the CG Code during the year under review. The manner in which the principles and code provisions in the CG Code are applied and implemented during the year ended 31 December 2013 (the "year") is explained in this Corporate Governance Report.

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

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

BOARD OF DIRECTORS

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

The Board of the Company comprises the following directors:

Executive Directors:
Zhang Jun *(Chairman and Chief Executive Officer)*
Wang Tao (汪濤) *(Executive President)*
Ji Min *(Chief Financial Officer)*

Non-executive Directors:
Zhang Shuman *(Chief Strategy Officer)*
Yuan Pengbin
Li Huaiqi

Independent Non-executive Directors:
Wang Tao (王濤)
Liu Qihua
Lee Siang Chin
Liu Haisheng

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

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

Chairman and Chief Executive Officer

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

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

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

Independent Non-executive Directors

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

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

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

Terms of Directors

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

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

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

Continuing Professional Development of Directors

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

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

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

During the year, relevant reading materials including legal and regulatory update and seminar handouts relating to guidelines for directors by The Hong Kong Institute of Directors, and key changes to the new Hong Kong Companies Ordinance from share registrars perspective have been provided to all directors, namely Mr. Zhang Jun, Mr. Wang Tao (汪濤), Mr. Ji Min, Ms. Zhang Shuman, Mr. Yuan Pengbin, Mr. Li Huaiqi, Mr. Wang Tao (王濤), Mr. Liu Qihua and Mr. Lee Siang Chin and Mr. Liu Haisheng for their reference and studying, and an annual directors' training conducted by the legal advisors engaged by the Company has been arranged to all directors.

BOARD COMMITTEES

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

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

Audit Committee

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

During the year, the Audit Committee held three meetings to review annual financial results and report in respect of the year ended 31 December 2012, interim financial results and report in respect of the six months ended 30 June 2013 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, connected transactions and arrangements for employees to raise concerns about possible improprieties.

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

Remuneration Committee

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

During the year, the Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and senior management and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional and industry experience, skills, knowledge and length of service. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year, the Nomination Committee met two times to review the structure, size, composition and diversity of the Board and the independence of the independent non-executive directors, and to consider the qualifications of the retiring directors standing for election at the annual general meeting.

Corporate Governance Functions

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

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

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

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

	Attendance/Number of Meetings during the tenure of directorship				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Zhang Jun	5/5	N/A	N/A	N/A	1/1
Wang Tao (汪濤)	4/5	N/A	N/A	2/2	0/1
Ji Min	5/5	N/A	N/A	N/A	1/1
Zhang Shuman	5/5	3/3	N/A	N/A	1/1
Yuan Pengbin	4/5	N/A	2/2	N/A	0/1
Li Huaiqi	4/5	N/A	N/A	N/A	0/1
Datuk Syed Hisham Bin Syed Wazir#	N/A	N/A	N/A	N/A	N/A
Wang Tao (王濤)	5/5	3/3	2/2	2/2	1/1
Liu Qihua	3/5	N/A	N/A	1/2	0/1
Lee Siang Chin	5/5	3/3	2/2	N/A	1/1
Liu Haisheng	5/5	N/A	N/A	N/A	1/1

resigned on 15 March 2013

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

DIRECTORS' RESPONSIBILITIES FOR PREPARING FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 49 to 50 of this annual report.

AUDITORS' REMUNERATION

During the year ended 31 December 2013, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	3,057
Non-audit Services	
– Proposed Issue of Senior Notes	500
– Other Non-audit Services	137
Total	3,694

INTERNAL CONTROLS

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

During the year ended 31 December 2013, the Board conducted a review of the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and is satisfied with its effectiveness.

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner. The Chairman of the Board and other members of the Board including non-executive directors and independent non-executive directors as well as Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee (or their delegates) and, where applicable, the Chairman of the independent Board committee, are available to meet shareholders and answer questions at shareholder meetings.

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

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Group is an integrated oilfield equipment and services provider with a focus on drill pipes, line pipes and oil country tubular goods (OCTG) coatings and oilfield services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated financial statements of this annual report.

DIVIDEND

During the year ended 31 December 2013, a final dividend of HK7.6 cents per share, amounting to a total dividend of approximately HK$124.0 million (equivalent to approximately RMB98.7 million) for the year ended 31 December 2012, was paid to shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK7.7 cents per share, amounting to approximately HK$130.6 million (equivalent to approximately RMB102.7 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2013, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM"). Upon approval of the shareholders at the AGM, the proposed final dividend is expected to be paid on 30 May 2014 to the shareholders of the Company whose names appear on the register of members of the Company as at 26 May 2014.

RESERVES

Details of movement in the reserves of the Group for the year ended 31 December 2013 are set out in note 18 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2013, the reserves of the Company available for distribution to shareholders amounted to RMB1,272.4 million (2012: RMB950.4 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate sales attributable to the Group's largest and five largest customers were 8.0% and 30.0% of the Group's total sales respectively (2012: 6.9% and 26.8% (restated)). The aggregate purchases attributable to the Group's largest and five largest suppliers were 6.5% and 20.7% of the Group's total purchases respectively during the year under review (2012: 9.6% and 29.1%).

During the year, none of the Directors, their associates or any shareholders (who to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) had any interest in any of the five largest customers or suppliers of the Group.

BANK AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2013 are set out in note 19 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year under review amounted to RMB5,700 (2012: RMB81,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

CONVERTIBLE BONDS

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

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 136 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Datuk Syed Hisham Bin Syed Wazir[(2)]
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)

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

(2) Datuk Syed Hisham Bin Syed Wazir resigned as a Non-executive Director with effect from 15 March 2013.

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

Mr. Ji Min, Ms. Zhang Shuman, Mr. Yuan Pengbin and Mr. Liu Qihua will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with article 84 of the Articles. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

EMOLUMENT POLICY

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

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

As at 31 December 2013, the total number of full-time employees of the Group was 2,117 (31 December 2012: 2,088). Employee costs excluding the Directors' remuneration totalled RMB357,920,000 for the year of 2013. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

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

The Company adopted a Post-IPO share option scheme on 10 May 2013. During 2013, the Company did not grant any options under this scheme. On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this annual report, none of the share options granted under the Post-IPO share option scheme has been exercised.

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

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2013 were within the following bands:

	Number of Senior Management
HK$1,000,001 to HK$2,000,000	3
HK$2,000,001 to HK$2,500,000	2
HK$2,500,001 to HK$3,000,000	–
	5

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in "Continuing Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a Pre-IPO share option scheme (the "Pre-IPO Scheme") on 28 February 2011. The Pre-IPO Scheme commenced on 1 January 2011. The following is a summary of the principal terms of the Pre-IPO Scheme:

(a) Purpose

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

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

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

(b) Who may join

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

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

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

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

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

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

(c) Maximum number of Shares

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

(d) Price of Shares

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

(e) Time of exercise of option and duration of the Scheme

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

(f) Expiry of option

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

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

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

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

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

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

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

	Number of share options							
Category/name of participants	Outstanding as at 1 January 2013	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2013	Exercise price 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	800,000	–	(160,000)	–	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	6,300,000	–	(160,000)	–	6,140,000			
Other employees								
In aggregate	38,700,000	–	(6,754,300)	(4,655,000)	27,290,700	2.60	1 January 2011	21 April 2012 – 31 December 2020
Total	45,000,000	–	(6,914,300)	(4,655,000)	33,430,700			

POST-IPO SHARE OPTION SCHEME

The Company adopted a Post-IPO share option scheme (the "Post-IPO Scheme") on 10 May 2013. The following is a summary of the principal terms of the Post-IPO Scheme:

(a) Purpose

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

(b) Who may join

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

(c) Maximum number of shares

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

As at the date of this annual report, the total number of shares subject to the Post-IPO Scheme is 81,573,950 shares, representing approximately 4.81% of the issued share capital of the Company. During 2013, the Company did not grant any options under the Post-IPO Scheme.

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

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

(e) Subscription price

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

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

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

(g) Expiry of option

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

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

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

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

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

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

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

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

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

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

On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this annual report, none of the share options granted has been exercised.

DISCLOSURE OF INTERESTS

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

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company:

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder of Mr. Zhang's trust/Interest of controlled corporation	899,390,000[1]	53.05%
	Founder of three Mr. Zhang's family trusts/ Interest of controlled corporation	112,000,800[2]	6.61%
	Beneficial owner	760,000	0.04%
Ms. Zhang Shuman	Interest of controlled corporation	24,000,000[3]	1.42%
	Beneficial owner	492,000	0.03%
Mr. Yuan Pengbin	Beneficial owner	361,600	0.02%
Mr. Wang Tao (汪濤)	Beneficial owner	500,000	0.03%
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 underlying shares of the Company:

Name of Director	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Mr. Ji Min	Beneficial owner	640,000	21 April 2012 – 31 December 2020	0.04%
Mr. Yuan Pengbin	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%
Mr. Wang Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%

(c) Long positions in the shares of the associated corporation of the Company:

Name of Director	Capacity	Name of associated corporation	Number of shares interested	Percentage of the issued share capital of the associated corporation
Mr. Zhang Jun	Founder of Mr. Zhang's trust	Hilong Group Limited	100	100%

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

As at 31 December 2013, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long position in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/ underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	899,390,000(1)	53.05%
SCTS Capital Pte Ltd.	Nominee	1,033,557,000(1)(2)	60.96%
Standard Chartered Trust (Singapore) Limited	Trustee	1,033,557,000(1)(2)	60.96%
Ms. Gao Xia	Interest of spouse	1,012,750,800(3)	59.73%

Notes:

(1) These 899,390,000 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.

MANAGEMENT CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2013 is contained in note 35 to the consolidated financial statements. The transactions between the Group and Shanghai Yuanzhi Metallurgical Co., Ltd., Shanghai Xinhao Technology Development Co., Ltd., Jiangyan Hilong Wire Welding Co., Ltd., Hilong Oil Pipe Co., Ltd. and Beijing Huashi Hilong Oil Investments Co., Ltd. as described in note 35 fall under the definition of continuing connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

Particulars of the continuing connected transactions that are not exempt under Rule 14A.33 of the Listing Rules are set out as follows:

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

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

As at 31 December 2013, Mr. Zhang Jun (張軍), the controlling shareholder and director of the Company, and his associates, hold the entire share capital in Hilong Oil Pipe. As such, Hilong Oil Pipe is an associate of Mr. Zhang and a connected person of the Company. The lease under the Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is C$1,038,040 (approximately RMB6,352,805). The proposed annual caps for the lease under the Tenancy Agreement for the three years ending 31 December 2013 are C$1,038,040, C$1,038,040 and C$1,038,040, respectively. The annual rental payable under the lease is determined on normal commercial terms. The Company's valuer, Jones Lang LaSalle Sallmanns, has confirmed that the rental payable under the lease is fair, reasonable and is consistent with the prevailing market rates for similar properties in similar locations in Canada.

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

As disclosed above, the term of lease under the Tenancy Agreement ended on 28 February 2013. On 22 March 2013, Hilong Petropipe Co., Ltd., as tenant, entered into a new tenancy agreement ("New Tenancy Agreement") with Hilong Oil Pipe, as landlord, to renew the existing lease for a term of three years from 1 March 2013 to 29 February 2016. The annual rent under the New Tenancy Agreement remains C$1,038,040. The annual caps for the lease under the New Tenancy Agreement for the years ending 31 December 2013, 2014, 2015 and 2016 are C$865,033 (10 months), C$1,038,040, C$1,038,040 and C$173,007 (2 months) respectively. The annual caps were determined based on the annual rent under the New Tenancy Agreement. The annual rent was determined through arm's length negotiation between the two parties with reference to the prevailing market rate for comparable premises and the annual rent under the Tenancy Agreement. As one of the relevant percentage ratios under Chapter 14 of the Listing Rules, on an annual basis, is more than 0.1% but less than 5%, the continuing connected transaction contemplated under the New Tenancy Agreement is exempted from the independent shareholders' approval requirement but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. For more particulars in relation to the New Tenancy Agreement and the transaction contemplated thereunder, please refer to the announcement of the Company dated 22 March 2013.

B. Sale of Drilling Rig Components from Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) to Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司)

On 28 February 2011, Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) ("Hebei Zhongxin"), as seller, entered into a master sales agreement (the "Master Sales Agreement") with Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) ("Hilong Oil Service"), as buyer, under which Hebei Zhongxin agreed to sell drilling rig components to Hilong Oil Service for a term commencing from 28 February 2011 and ending on 31 December 2013.

As at the 31 December 2013, Mr. Zhang Jun (張軍), the controlling shareholder and director of the Company, owns 95.65% of the interest in Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("Huashi Hailong"), which in turns holds 60% of interest in Hebei Zhongxin. As such, Hebei Zhongxin is an associate of Mr. Zhang and a connected person of the Company. The transactions under the Master Sales Agreement therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

For each of the three years ended 31 December 2010, the total transaction amount for the sales of spare parts amounted to approximately RMB474,000, RMB19,000 and RMB756,000, respectively. The sale in 2010 primarily represented sale of small scale drilling rig components to Hilong Oil Service. The annual caps for the sales transactions under the Master Sales Agreement for the three years ending 31 December 2013 have been set at approximately RMB8 million, RMB12 million and RMB12 million, respectively. The substantial increase in transaction volume is a result of expected increase in the demand of drilling rigs by the Group and the expected commencement of purchases of large scale drilling rig components in 2011, including electric-controlled equipment, by Hilong Oil Service from Hebei Zhongxin. Each set of electric-controlled equipment is expected to cost RMB3.5 million to RMB4.0 million, and the Group expects to purchase two, three and three sets of such equipment for the three years ending 31 December 2013, respectively.

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

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

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

As at the 31 December 2013, Mr. Zhang Jun (張軍), the controlling shareholder and director of the Company, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. Zhang and a connected person of the Company. The lease under the Tenancy Agreement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is RMB7.9 million. The proposed annual caps for the lease under the Tenancy Agreement for the three years ending 31 December 2013 are RMB7.9 million, RMB7.9 million and RMB7.9 million, respectively. The annual rental payable under the lease is determined on normal commercial terms. The Company's valuer, Jones Lang LaSalle Sallmanns, has confirmed that the rental payable under the lease is fair, reasonable and is consistent with the prevailing market rates for similar properties in similar locations in the PRC.

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

Waivers from announcement requirements for transactions A, B and C above have been obtained from the Stock Exchange. Please refer to the prospectus dated 11 April 2011 for details of the waivers. We will inform the Stock Exchange and make necessary announcements and/or obtain shareholders' approval to ensure compliance with Chapter 14A of the Listing Rules when the waivers expire, or when the annual caps of the continuing connected transactions are exceeded.

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

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

(ii) on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and

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

The Company's auditor, PricewaterhouseCoopers, has issued an unqualified letter to the Board in respect of the continuing connected transactions of the Company disclosed above confirming the matters stated in Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange in accordance with Rule 14A.38 of the Listing Rules.

In respect of transaction C, as disclosed above, the term of the lease under the Tenancy Agreement ended on 31 December 2013. On 30 December 2013, the Hilong Oil Service as tenant, entered into a new tenancy agreement (the "New Tenancy Agreement") with Beijing Huashi Investment, as landlord, to renew the existing lease under the Tenancy Agreement for a term of three years from 1 January 2014 to 31 December 2016 upon expiry of the Tenancy Agreement on 31 December 2013. The monthly rental for 2014 under the New Tenancy Agreement is RMB436,750.51 (excluding management fees and utility fees). The parties agreed that the increase of the annual rent will not be more than 3% per annum. The annual caps for the lease under the New Tenancy Agreement for the three years ending 31 December 2014, 2015 and 2016 are RMB5,241,006, RMB5,398,236, and RMB5,560,183 respectively. The annual caps were determined based on the 2014 annual rental payable by Hilong Oil Service to Beijing Huashi Investment and the annual rental increase limits under the New Tenancy Agreement. The 2014 annual rental and the annual rental increase limits were determined through arm's length negotiations between the parties with reference to the prevailing market rate for comparable premises and the annual rental under the Tenancy Agreement. As one of the relevant percentage ratios under Chapter 14 of the Listing Rules, on an annual basis, is more than 0.1% but less than 5%, the continuing connected transaction contemplated under the New Tenancy Agreement is exempted from the independent shareholders' approval requirement but is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. For more particulars in relation to the New Tenancy Agreement and the transaction contemplated thereunder, please refer to the announcement of the Company dated 30 December 2013.

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

The Facility Agreement contains a specific performance obligation imposed on Mr. Zhang Jun, a controlling shareholder of the Company. Specifically, the Facility Agreement requires Mr. Zhang Jun to continue to (i) to maintain, directly or indirectly, not less than 55% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as the chairman of the Board, during the term of the Facility Agreement. Any breach of the above obligations constitutes an event of default which enable the lenders to cancel all or any part of their respective commitments under the Facility Agreement immediately and the outstanding amount under the Facility Agreement together with interest accrued thereon may become immediately due and payable. For details of the Facility Agreement, please refer to the announcement of the Company dated 16 September 2013.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year ended 31 December 2013 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

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

Neither the Company, or any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2013.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

The Controlling Shareholders have confirmed their compliance with the non-competition undertakings under the Deed throughout the year of 2013. The Independent Non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders and are satisfied that the Controlling Shareholders have complied with the undertakings.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013, except that in respect of code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. Zhang Jun.

Please refer to the Corporate Governance Report on pages 27 to 33 of this annual report.

AUDITOR

The financial statements for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers, certified public accountants. A resolution will be proposed at the forthcoming AGM for the re-appointment of PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board
Zhang Jun
Chairman

Hong Kong, 21 March 2014

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 135, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2014

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,614,236**	1,253,744
Lease prepayments	7	**94,956**	85,566
Intangible assets	8	**72,863**	71,094
Investments accounted for using equity method	9	**71,176**	75,511
Deferred income tax assets	11	**99,136**	93,504
Other long-term assets	10	**61,019**	2,216
		2,013,386	1,581,635
Current assets			
Inventories	13	**737,725**	586,344
Trade and other receivables	14	**1,534,411**	1,385,225
Derivative financial instruments	16	**1,007**	–
Restricted cash	15	**129,847**	82,965
Cash and cash equivalents	15	**390,889**	403,962
		2,793,879	2,458,496
Total assets		**4,807,265**	4,040,131
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	17	**141,897**	133,613
Other reserves	18	**1,102,061**	774,039
Retained earnings			
– Proposed final dividend	30	**102,677**	100,462
– Others		**1,384,742**	1,146,171
Currency translation differences		**(76,048)**	(36,709)
		2,655,329	2,117,576
Non-controlling interests		**218,258**	187,858
Total equity		**2,873,587**	2,305,434

The notes on pages 58 to 135 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	**506,676**	292,971
Deferred income tax liabilities	*11*	**76,872**	95,872
Derivative financial instruments	*16*	**3,668**	33,526
Deferred revenue	*20*	**22,839**	20,989
		610,055	443,358
Current liabilities			
Trade and other payables	*21*	**661,248**	582,775
Current income tax liabilities		**7,987**	61,903
Borrowings	*19*	**654,004**	646,261
Derivative financial instruments	*16*	**323**	–
Deferred revenue	*20*	**61**	400
		1,323,623	1,291,339
Total liabilities		**1,933,678**	1,734,697
Total equity and liabilities		**4,807,265**	4,040,131
Net current assets		**1,470,256**	1,167,157
Total assets less current liabilities		**3,483,642**	2,748,792

The notes on pages 58 to 135 are an integral part of these consolidated financial statements.

The financial statements on pages 51 to 135 were approved by the Board of Directors on 21 March 2014 and were signed on its behalf.

Zhang Jun
Director

Ji Min
Director

BALANCE SHEET

AS AT 31 DECEMBER 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	12	**23,864**	20,325
Current assets			
Trade and other receivables	14	**1,946,694**	1,324,848
Cash and cash equivalents	15	**9,501**	4,404
		1,956,195	1,329,252
Total assets		**1,980,059**	1,349,577
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	17	**141,897**	133,613
Other reserves	18	**1,189,425**	866,157
Retained earnings			
– Proposed final dividends	30	**102,677**	100,462
– Others		**183**	4,771
Total equity		**1,434,182**	1,105,003
LIABILITIES			
Non-current liabilities			
Borrowings	19	**484,676**	204,903
Derivative financial instruments	16	**–**	33,526
		484,676	238,429
Current liabilities			
Trade and other payables	21	**232**	6,145
Borrowings	19	**60,969**	–
		61,201	6,145
Total liabilities		**545,877**	244,574
Total equity and liabilities		**1,980,059**	1,349,577
Net current assets		**1,894,994**	1,323,107
Total assets less current liabilities		**1,918,858**	1,343,432

The notes on pages 58 to 135 are an integral part of these consolidated financial statements.

The financial statement on pages 51 to 135 were approved by the Board of Directors on 21 March 2014 and were signed on its behalf.

Zhang Jun
Director

Ji Min
Director

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

		Year ended 31 December	
	Note	**2013 RMB'000**	2012 RMB'000
Revenue	5	**2,452,358**	2,264,373
Cost of sales	22	**(1,464,407)**	(1,369,093)
Gross profit		**987,951**	895,280
Selling and marketing expenses	22	**(105,895)**	(117,253)
Administrative expenses	22	**(279,610)**	(285,634)
Other income	25	**1,945**	–
Other losses – net	26	**(100,197)**	(14,867)
Operating profit		**504,194**	477,526
Finance income	27	**8,467**	1,503
Finance costs	27	**(71,224)**	(73,227)
Finance costs – net		**(62,757)**	(71,724)
Share of profit of investments accounted for using equity method	9	**768**	771
Profit before income tax		**442,205**	406,573
Income tax expense	28	**(71,696)**	(45,146)
Profit for the year		**370,509**	361,427
Profit attributable to:			
Equity owners of the Company		**344,630**	345,001
Non-controlling interests		**25,879**	16,426
		370,509	361,427
Earnings per share attributable to the equity owners of the Company during the year (expressed in RMB per share)			
Basic earnings per share	29	**0.2073**	0.2168
Diluted earnings per share	29	**0.2055**	0.2168
The notes on pages 58 to 135 are an integral part of these consolidated financial statements.			
Dividends	30	**102,677**	100,462

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit for the year	**370,509**	361,427
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(39,339)**	(3,059)
Other comprehensive income for the year, net of tax	**(39,339)**	(3,059)
Total comprehensive income for the year	**331,170**	358,368
Attributable to:		
Equity owners of the Company	**305,291**	341,942
Non-controlling interests	**25,879**	16,426
	331,170	358,368

The notes on pages 58 to 135 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

		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 2012		133,927	764,232	995,640	(33,650)	1,860,149	178,473	2,038,622
Comprehensive income								
Profit for the year		–	–	345,001	–	345,001	16,426	361,427
Other comprehensive income								
Currency translation differences		–	–	–	(3,059)	(3,059)	–	(3,059)
Total comprehensive income for the year		–	–	345,001	(3,059)	341,942	16,426	358,368
Appropriation to statutory reserve	*18(a)*	–	4,677	(4,677)	–	–	–	–
Transactions with owners								
Share repurchase	*17(a)*							
– repurchases of shares		(314)	–	–	–	(314)	–	(314)
– premium on repurchase of shares		–	(3,915)	–	–	(3,915)	–	(3,915)
– transfer		–	314	(314)	–	–	–	–
Consideration paid to the then equity owners for acquisition of subsidiaries under common control	*34(a)*	–	(380)	–	–	(380)	–	(380)
Pre-IPO share option plan	*18(b)*	–	9,111	–	–	9,111	–	9,111
Dividends in respect of 2011		–	–	(89,017)	–	(89,017)	–	(89,017)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(7,041)	(7,041)
As at 31 December 2012		133,613	774,039	1,246,633	(36,709)	2,117,576	187,858	2,305,434
As at 1 January 2013		**133,613**	**774,039**	**1,246,633**	**(36,709)**	**2,117,576**	**187,858**	**2,305,434**
Comprehensive income								
Profit for the year		**–**	**–**	**344,630**	**–**	**344,630**	**25,879**	**370,509**
Other comprehensive income								
Currency translation differences		**–**	**–**	**–**	**(39,339)**	**(39,339)**	**–**	**(39,339)**
Total comprehensive income for the year		**–**	**–**	**344,630**	**(39,339)**	**305,291**	**25,879**	**331,170**
Appropriation to statutory reserve	*18(a)*	**–**	**5,137**	**(5,137)**	**–**	**–**	**–**	**–**
Transactions with owners								
Issue of ordinary shares in connection with conversion of convertible bonds	*17(c), 19(b)*	**7,732**	**305,954**	**–**	**–**	**313,686**	**–**	**313,686**
Pre-IPO share option plan	*18(b)*	**–**	**3,539**	**–**	**–**	**3,539**	**–**	**3,539**
Exercise of share options	*17(b), 18(b)*	**552**	**13,775**	**–**	**–**	**14,327**	**–**	**14,327**
Non-controlling interests arising on business combination	*34(b)*	**–**	**–**	**–**	**–**	**–**	**10,683**	**10,683**
Acquisiton of additional interests in a subsidiary	*33*	**–**	**(383)**	**–**	**–**	**(383)**	**(1,177)**	**(1,560)**
Dividends in respect of 2012	*30*	**–**	**–**	**(98,707)**	**–**	**(98,707)**	**–**	**(98,707)**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(4,985)**	**(4,985)**
As at 31 December 2013		**141,897**	**1,102,061**	**1,487,419**	**(76,048)**	**2,655,329**	**218,258**	**2,873,587**

The notes on pages 58 to 135 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

		Year ended 31 December	
	Note	**2013 RMB'000**	2012 RMB'000
Cash flow from operating activities			
Cash generated from operations	*31(a)*	**414,049**	437,098
Interest paid		**(89,783)**	(45,385)
Income tax paid		**(150,244)**	(38,533)
Net cash generated from operating activities		**174,022**	353,180
Cash flow used in investing activities			
Proceeds from disposal of equity interest in an associate		**–**	3,000
Proceeds from disposal of property, plant and equipment	*31(b)*	**2,685**	96,938
Investments in joint ventures	*9(b)*	**(24,500)**	(17,547)
Purchases of property, plant and equipment		**(458,539)**	(377,091)
Purchases of lease prepayments		**(4,485)**	–
Purchases of intangible assets		**(63)**	(2,184)
Cash consideration paid for business combination under common control	*34(a)*	**–**	(380)
Acquisition of subsidiaries, net of cash acquired	*34(b)*	**(17,703)**	–
Dividends received		**1,944**	1,572
Net cash used in investing activities		**(500,661)**	(295,692)
Cash flows from financing activities			
Proceeds from borrowings		**1,136,589**	799,804
Repayments of borrowings		**(705,544)**	(650,486)
Dividends paid to non-controlling interests of subsidiaries		**(4,061)**	(9,186)
Repurchase of shares, net of transaction costs		**–**	(2,385)
Proceeds from share options exercised	*18(b)*	**14,327**	–
Acquisiton of additional interests in a subsidiary	*33*	**(1,560)**	–
Dividends	*30*	**(98,707)**	(89,017)
Net cash outflow arising from security deposit for bank borrowings		**(18,361)**	(27,784)
Net cash generated from financing activities		**322,683**	20,946
Net (decrease)/increase in cash and cash equivalents		**(3,956)**	78,434
Exchange (losses)/gains on cash and cash equivalents		**(9,117)**	28
Cash and cash equivalents at beginning of the year		**403,962**	325,500
Cash and cash equivalents at end of the year		**390,889**	403,962

The notes on pages 58 to 135 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1 GENERAL INFORMATION OF THE GROUP

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

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

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

The consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 21 March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group in 2013

- HKAS 1 (Amendment) "Presentation of financial statements" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "Other comprehensive income" on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- HKFRS 7 (Amendment) "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities" requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The adoption of this amendment has no material impact on the consolidated financial statements.

- HKFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group assessed that the adoption of HKFRS 10 did not result in any change in the consolidation status of its subsidiaries.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group in 2013 (continued)

- HKAS 27 (revised 2011) "Separate financial statements" includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. The adoption of this new standard has no material impact on the consolidated financial statements.

- HKFRS 11 "Joint arrangements" focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. The Group has assessed the nature of its joint arrangement and determined it to be joint venture. The adoption of this new standard has no material impact on the consolidated financial statements.

- HKAS 28 (revised 2011) "Associates and joint ventures" includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. After the adoption of this new standard, the Group's investment in associates and investment in jointly controlled entities presented in "Investments accounted for using the equity method" and Group's share of profit of associates and share of profit of jointly controlled entities presented in "Share of profit of investments accounted for using the equity method" from 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. In the opinion of the directors, the non-controlling interests, the associates and the joint ventures of the Group are not material to the Group. The adoption of this new standard has no material impact on the consolidated financial statements.

- HKFRS 10, 11 and 12 (Amendment) "Transition guidance" provides additional transition relief to HKFRS 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied. The adoption of this amendment has no material impact on the consolidated financial statements.

- HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements, which are largely aligned between HKFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS. The adoption of this new standard results in additional disclosures.

- HKAS 19 (Amendment) "Employee benefits" makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The Group doesn't hold any defined benefit plans or early-termination plans so that the adoption of this amendment has no material impact on the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group in 2013 (continued)

There are no other new or amended standards or interpretations that are effective for the first time for the financial year beginning on 1 January 2013 that could be expected to have a material impact on the Group.

(b) New and amended standards issued but are not effective in 2013 and not yet adopted by the Group

- HKAS 32 (Amendment) "Financial instruments: Presentation – Offsetting financial assets and financial liabilities", effective for the accounting period beginning on or after 1 January 2014.
- HKFRS 10, HKFRS 12 and HKAS 27 (Amendments) "Investment entities", effective for the accounting period beginning on or after 1 January 2014.
- HKAS 36 (Amendment) "Recoverable amount disclosures for non-financial assets", effective for the accounting period beginning on or after 1 January 2014.
- HKRIC Interpretation 21 "Levies", effective for the accounting period beginning on or after 1 January 2014.
- HKFRS 9 "Financial instruments", effective for the accounting period beginning on or after 1 January 2015.
- HKFRS 7 and HKFRS 9 (Amendments) "Mandatory effective date and transition disclosures", effective for the accounting period beginning on or after 1 January 2015.

The directors anticipate that the adoption of these new standards, amendments to standards and interpretation to standards will not result in a significant impact on the results and financial position of the Group.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) *Business combinations (continued)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

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

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

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

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

(c) *Disposal of subsidiaries*

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

2.2.2 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates

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

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

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

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

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

Gain or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements as of 1 January 2013. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

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

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group companies

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

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investing in foreign operations, and of borrowings and other currency instrument designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated income statement as part of the gain or losses on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment

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

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

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

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

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

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

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

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

2.8 Lease prepayments

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

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

(a) Goodwill (continued)

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

(b) Computer software

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

(c) Proprietary technologies

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

2.10 Impairment of non-financial assets

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

2.11 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

(b) Recognition and measurement

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

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

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(d) Impairment of financial assets

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Derivative financial instruments and hedging activities

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

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge).

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

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

Derivatives that do not qualify for hedge accounting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Embedded derivatives

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- the hybrid (consolidated) instrument is not measured at fair value with changes in fair value recognized in the profit or loss.

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

2.14 Inventories

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

2.15 Trade and other receivables

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

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

2.16 Cash and cash equivalents

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

2.17 Restricted cash

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Ordinary shares

Ordinary shares are classified as equity.

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

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

2.19 Trade and other payables

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

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

2.20 Borrowings and borrowing costs

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Convertible bonds

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

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

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

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

2.22 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Outside basis differences (continued)

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

(c) Offsetting

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

2.23 Employee benefits

(a) Pension obligations

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

(b) Housing benefits

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

(c) Pre-IPO share-based payment transaction

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Provision and contingent liabilities

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

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

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

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

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

2.25 Revenue recognition

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

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

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

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

(b) Rendering of coating and oilfield service

Coating services revenue is recognized in the accounting period in which the services are rendered.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition (continued)

(b) Rendering of coating and oilfield service (continued)

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

(c) Interest income

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

(d) Dividend income

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

2.26 Government grants

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

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

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

2.27 Operating leases (as a lessee)

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

2.28 Dividend distribution

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

2.29 Research and development

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group 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") and Hong Kong dollar ("HKD"). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. In 2013, the Group entered into a cross currency swap (Note 16(b)) to manage its partial exposure to USD from recognised assets and liabilities (2012: nil). Nevertheless, the cross currency swap was not accounted for as hedging instruments as the conditions for hedge accounting was not met during the year.

As at 31 December 2013, if USD and HKD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB18,991,000 (2012: RMB31,213,000) higher/lower as a result of foreign exchange gain/losses on translation of USD or HKD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, and borrowings.

(ii) Cash flow and fair value interest rate risk

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

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

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

As at 31 December 2013, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB86,000 (2012: RMB62,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The table below shows the bank deposit balances of the major counterparties as at 31 December 2013:

Counterparty	Rating	As at 31 December 2013 RMB'000	 2012 RMB'000
HSBC*	A-1+	**128,859**	99,231
Industrial & Commercial Bank of China*	A-1	**47,331**	44,567
Bank of Communication*	A-2	**45,720**	43,171
Bank of China*	A-1	**32,375**	36,264
Maybank*	A-2	**31,669**	28,399
Bank of Beijing	N/A	**31,555**	18,163
China Construction Bank*	A-1	**30,153**	30,582
Zenith Bank*	B	**28,965**	17,127
China Merchants Bank*	A-2	**27,850**	27,439
Agricultural Bank of China*	A-1	**20,754**	32,222
Shanghai Pudong Development Bank*	A-2	**16,498**	1,191
JPMorgan Chase Bank, N.A.*	A-1	**16,030**	7,917
Emirates Islamic Bank**	P-1	**10,059**	19,913

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

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

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

(c) Liquidity risk

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

Group	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 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
As at 31 December 2012					
Borrowings and interest payable	683,621	341,643	23,759	–	1,049,023
Trade and other payables (excluding advance from customers, interest payable, staff salaries and welfare payables and other tax liabilities)	454,928	–	–	–	454,928
	1,138,549	341,643	23,759	–	1,503,951

Company	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2013					
Borrowings and interest payable	79,068	91,573	431,298	–	601,939
Trade and other payables	232	–	–	–	232
	79,300	91,573	431,298	–	602,171
As at 31 December 2012					
Borrowings and interest payable	9,926	269,160	–	–	279,086
Trade and other payables	6,145	–	–	–	6,145
	16,071	269,160	–	–	285,231

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

The gearing ratios as at 31 December 2013 and 2012 are as follows:

	As at 31 December	
	2013 **RMB'000**	2012 RMB'000
Total borrowings *(Note 19)*	**1,160,680**	939,232
Less: Cash and cash equivalents *(Note 15)*	**(390,889)**	(403,962)
Net debt	**769,791**	535,270
Total equity	**2,873,587**	2,305,434
Total capital	**3,643,378**	2,840,704
Gearing ratio	**21.13%**	18.84%

The increase in gearing ratio during the year ended 31 December 2013 was mainly due to the increase in borrowings. The Group expects the gearing ratio would be between 20% and 40% in future years.

3.3 Fair value estimation

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2013 and 2012.

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

As at 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Derivative financial instruments – non-current				
Convertible bonds – embedded derivative	–	–	33,526	33,526

There were no transfers between levels 1 and 2 during the years.

(a) Financial instruments in level 2

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

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

Specific valuation techniques used to value financial instruments include:

- The fair value of 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2013 and 2012.

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Convertible bonds – embedded derivative		
Opening balance	**33,526**	12,810
Changes in fair value *(Note 26)*	**75,892**	20,712
Exchange difference *(Note 26)*	**(1,932)**	4
Conversion of convertible bonds *(Note 19(b))*	**(107,486)**	–
Closing balance	**–**	33,526

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. There was no change in valuation techniques during the year.

3.4 Financial instruments by category

Group

	As at 31 December 2013			As at 31 December 2012		
	Loans and receivables RMB'000	**Assets at fair value through the profit and loss RMB'000**	**Total RMB'000**	Loans and receivables RMB'000	Assets at fair value through the profit and loss RMB'000	Total RMB'000
Financial assets						
Current						
Trade and other receivables (excluding prepayments)	**1,405,609**	**–**	**1,405,609**	1,236,717	–	1,236,717
Derivative financial instruments	**–**	**1,007**	**1,007**	–	–	–
Restricted cash	**129,847**	**–**	**129,847**	82,965	–	82,965
Cash and cash equivalents	**390,889**	**–**	**390,889**	403,962	–	403,962
	1,926,345	**1,007**	**1,927,352**	1,723,644	–	1,723,644

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category (continued)

Group (continued)

	As at 31 December 2013			As at 31 December 2012		
	Liabilities at fair value through the profit and loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000	Liabilities at fair value through the profit and loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities						
Non-current						
Borrowings	–	506,676	506,676	–	292,971	292,971
Derivative financial instruments	3,668	–	3,668	33,526	–	33,526
	3,668	506,676	510,344	33,526	292,971	326,497
Current						
Trade and other payables (excluding advance from customers, staff salaries and welfare payables and other tax liabilities)	–	582,778	582,778	–	456,384	456,384
Borrowings	–	654,004	654,004	–	646,261	646,261
Derivative financial instruments	323	–	323	–	–	–
	323	1,236,782	1,237,105	–	1,102,645	1,102,645
	3,991	1,743,458	1,747,449	33,526	1,395,616	1,429,142

Company

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Financial assets		
Current		
Loans and receivables		
Trade and other receivables (excluding prepayments)	1,926,595	1,324,495
Cash and cash equivalents	9,501	4,404
	1,936,096	1,328,899

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Financial instruments by category (continued)

Group (continued)

	As at 31 December 2013			As at 31 December 2012		
	Liabilities at fair value through the profit and loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000	Liabilities at fair value through the profit and loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities						
Non-current						
Borrowings	–	484,676	484,676	–	204,903	204,903
Derivative financial instruments	–	–	–	33,526	–	33,526
	–	484,676	484,676	33,526	204,903	238,429
Current						
Borrowings	–	60,969	60,969	–	–	–
Trade and other payables	–	232	232	–	6,145	6,145
	–	61,201	61,201	–	–	–
	–	545,877	545,877	33,526	211,048	244,574

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Current and deferred income taxes

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

(b) Useful lives of property, plant and equipment

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Impairment for receivables

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

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

(d) Estimated write-downs of inventories

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

(e) Fair value of derivative financial instruments

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

(f) Impairment assessment of goodwill

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

5 SEGMENT INFORMATION

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

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

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

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

- Oil and gas equipment production, including the production of drilling pipes which are used in drilling exploration or production wells for oil and gas producers.

- Coating materials production and coating service provision, including the production of coating materials for anticorrosive and anti-friction purpose and provision of coating services.

- Oilfield services provision, including the provision of well drilling services to oil and gas producers.

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2013 and 2012 are set out as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Drill pipes and related products	**950,680**	1,010,868
Coating materials and services	**629,089**	635,865
Oilfield services	**872,589**	617,640
	2,452,358	2,264,373

5 SEGMENT INFORMATION (continued)

(b) Segment information

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

	For the year ended 31 December 2013			
Business segment	**Drill pipes and related products RMB'000**	**Coating materials and services RMB'000**	**Oilfield services RMB'000**	**Total RMB'000**
Revenue				
Segment revenue	1,092,896	779,167	872,589	2,744,652
Inter-segment sales	(142,216)	(150,078)	–	(292,294)
Revenue from external customers	950,680	629,089	872,589	2,452,358
Results				
Segment gross profit	361,384	308,132	318,435	987,951
Segment profit *(i)*	81,943	201,153	221,098	504,194
Finance income				8,467
Finance costs				(71,224)
Share of profit of investments accounted for using equity method				768
Profit before income tax				442,205
Other information				
Depreciation of property, plant and equipment	39,727	19,398	74,376	133,501
Amortization of lease prepayments	969	1,089	–	2,058
Amortization of intangible assets	296	242	3	541
Capital expenditure	37,318	81,528	400,610	519,456

	As at 31 December 2013			
Business segment	**Drill pipes and related products RMB'000**	**Coating materials and services RMB'000**	**Oilfield services RMB'000**	**Total RMB'000**
Segment assets	2,337,652	860,939	1,537,498	4,736,089
Investments accounted for using the equity method				71,176
Total assets				4,807,265
Total liabilities	1,434,916	295,745	203,017	1,933,678

(i) In 2013, the segment profit from drill pipes and related products included the losses of RMB73,959,888 (2012: RMB20,716,172) from changes in fair value of convertible bonds – derivative financial instrument (Note 26).

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2012 is as follows:

For the year ended 31 December 2012

Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Revenue				
Segment revenue	1,140,830	765,932	617,640	2,524,402
Inter-segment sales	(129,962)	(130,067)	–	(260,029)
Revenue from external customers	1,010,868	635,865	617,640	2,264,373
Results				
Segment gross profit	388,634	262,346	244,300	895,280
Segment profit	159,817	162,915	154,794	477,526
Finance income				1,503
Finance costs				(73,227)
Share of profit of investments accounted for using the equity method				771
Profit before income tax				406,573
Other information				
Depreciation of property, plant and equipment	37,232	18,569	48,843	104,644
Amortization of lease prepayments	888	135	–	1,023
Amortization of intangible assets	264	223	–	487
Capital expenditure	22,408	79,838	264,707	366,953

As at 31 December 2012

Business segment	Drill pipes and related products RMB'000	Coating materials and services RMB'000	Oilfield services RMB'000	Total RMB'000
Segment assets	2,033,160	863,542	1,067,918	3,964,620
Investments accounted for using the equity method				75,511
Total assets				4,040,131
Total liabilities	1,335,875	321,491	77,331	1,734,697

5 SEGMENT INFORMATION (continued)

(c) Geographical segments

Although the Group's three 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 pipe and related products. In Central Asia, Middle East, West Africa and South America, the Group provides drilling and related oilfield engineering services. The following table shows the Group's total consolidated revenue by geographical market, regardless of where the goods were produced:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
The PRC	**1,219,740**	1,273,120
North and South America	**604,049**	510,009
Russia, Central Asia and East Europe	**240,057**	219,822
West Africa	**219,947**	156,191
Middle East	**85,781**	92,346
Others	**82,784**	12,885
	2,452,358	2,264,373

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

	Carrying amount of segment assets As at 31 December	
	2013	2012
	RMB'000	RMB'000
The PRC	**902,286**	684,995
North and South America	**390,170**	404,174
West Africa	**238,572**	132,516
Middle East	**132,187**	142,213
Russia, Central Asia and East Europe	**38,156**	46,506
Others	**141,653**	–
	1,843,024	1,410,404

5 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 long-term prepaid expenses by geographical areas in which the assets are located:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
The PRC	**275,846**	2,523
West Africa	**129,276**	74,514
North and South America	**58,154**	288,614
Russia, Central Asia and East Europe	**7,995**	1,234
Middle East	**921**	68
Others	**141,653**	–
	613,845	366,953

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2012							
Cost	260,699	825,463	20,677	21,220	7,624	194,079	1,329,762
Accumulated depreciation	(37,706)	(170,950)	(11,542)	(12,427)	(1,024)	–	(233,649)
Net book amount	222,993	654,513	9,135	8,793	6,600	194,079	1,096,113
Year ended 31 December 2012							
Opening net book amount	222,993	654,513	9,135	8,793	6,600	194,079	1,096,113
Transferred from construction in progress	36,123	329,019	11,719	–	8,581	(385,442)	–
Additions	–	–	11	3,262	–	361,496	364,769
Disposals *(a)*	(81)	(101,320)	(209)	(261)	–	–	(101,871)
Depreciation *(Note 22)*	(14,510)	(82,110)	(3,573)	(3,002)	(1,449)	–	(104,644)
Currency translation differences	(43)	(809)	79	2	148	–	(623)
Closing net book amount	244,482	799,293	17,162	8,794	13,880	170,133	1,253,744
At 31 December 2012							
Cost	296,698	1,043,587	31,327	23,442	16,132	170,133	1,581,319
Accumulated depreciation	(52,216)	(244,294)	(14,165)	(14,648)	(2,252)	–	(327,575)
Net book amount	244,482	799,293	17,162	8,794	13,880	170,133	1,253,744
Year ended 31 December 2013							
Opening net book amount	**244,482**	**799,293**	**17,162**	**8,794**	**13,880**	**170,133**	**1,253,744**
Transferred from construction in progress	**24,478**	**207,672**	**–**	**–**	**–**	**(232,150)**	**–**
Additions	**1,456**	**42,467**	**4,801**	**2,285**	**1,707**	**401,223**	**453,939**
Acquisition of Nantong Hilong Steel Pipe Co., Ltd. ("Nantong Hilong") *(Note 34(b))*	**25,838**	**57,256**	**77**	**183**	**–**	**208**	**83,562**
Disposals	**(313)**	**(806)**	**(176)**	**(421)**	**–**	**–**	**(1,716)**
Depreciation *(Note 22)*	**(11,647)**	**(112,879)**	**(4,554)**	**(2,791)**	**(1,630)**	**–**	**(133,501)**
Currency translation differences	**(1,127)**	**(34,957)**	**(1,525)**	**(289)**	**(667)**	**(3,227)**	**(41,792)**
Closing net book amount	**283,167**	**958,046**	**15,785**	**7,761**	**13,290**	**336,187**	**1,614,236**
At 31 December 2013							
Cost	**346,828**	**1,303,316**	**33,969**	**25,035**	**17,061**	**336,187**	**2,062,396**
Accumulated depreciation	**(63,661)**	**(345,270)**	**(18,184)**	**(17,274)**	**(3,771)**	**–**	**(448,160)**
Net book amount	**283,167**	**958,046**	**15,785**	**7,761**	**13,290**	**336,187**	**1,614,236**

As at 31 December 2013, certain machinery and equipment with a carrying amount of RMB137,308,000 (31 December 2012: certain buildings and facilities with a carrying amount of RMB147,793,000 and certain machinery and equipment with a carrying amount of RMB144,668,000) were pledged as collaterals for the Group's borrowings (Note 19(a)(i), (iii)).

6 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) During the year ended 31 December 2012, the disposals primarily included the sales of one oil drilling rig and certain manufacturing equipment. In addition, certain parts used in the oil drilling rigs were lost in an accident during the transportation in mid 2012. Consequently, the carrying amount of these parts was fully written off.

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost of sales	**122,878**	85,696
Administrative expenses	**10,343**	18,715
Selling and marketing expenses	**280**	233
	133,501	104,644

7 LEASE PREPAYMENTS

Group

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Outside of Hong Kong:		
– Lease of between 10 to 50 years	**94,956**	85,566

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening net book value	**85,566**	86,589
Additions	**4,485**	–
Acquistion of Nantong Hilong *(Note 34(b))*	**6,963**	–
Amortization charges *(Note 22)*	**(2,058)**	(1,023)
Closing net book value	**94,956**	85,566

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

8 INTANGIBLE ASSETS

Group

	Goodwill *(a)* RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2012				
Cost	66,861	3,137	3,643	73,641
Accumulated amortization	–	(933)	(1,214)	(2,147)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	66,861	107	2,429	69,397
Year ended 31 December 2012				
Opening net book amount	66,861	107	2,429	69,397
Additions	–	1,724	460	2,184
Amortization charge *(Note 22)*	–	(103)	(384)	(487)
Closing net book amount	66,861	1,728	2,505	71,094
At 31 December 2012				
Cost	66,861	4,861	4,103	75,825
Accumulated amortization	–	(1,036)	(1,598)	(2,634)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	66,861	1,728	2,505	71,094
Year ended 31 December 2013				
Opening net book amount	**66,861**	**1,728**	**2,505**	**71,094**
Additions	**–**	**–**	**63**	**63**
Acquisition of Nantong Hilong *(Note 34(b))*	**3,864**	**–**	**–**	**3,864**
Currency translation differences	**(1,617)**	**–**	**–**	**(1,617)**
Amortization charge *(Note 22)*	**–**	**(218)**	**(323)**	**(541)**
Closing net book amount	**69,108**	**1,510**	**2,245**	**72,863**
At 31 December 2013				
Cost	**69,108**	**4,861**	**4,166**	**78,135**
Accumulated amortization	**–**	**(1,254)**	**(1,921)**	**(3,175)**
Impairment provision	**–**	**(2,097)**	**–**	**(2,097)**
Net book amount	**69,108**	**1,510**	**2,245**	**72,863**

8 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill (continued)

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

Entity name	Year	Amount (RMB'000)
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	2008	7,493
Shanghai Boteng Welding Consumable Co., Ltd.	2008	3,710
Hilong Petroleum Pipe Company	2011	48,279
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	2011	3,928
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	2011	1,834
Nantong Hilong	2013	3,864
		69,108

Goodwill is allocated to the Group's CGUs identified according to business segments. A segment level summary of goodwill is presented below:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Drill pipes and related products	**52,143**	49,896
Coating materials and services	**16,965**	16,965
	69,108	66,861

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

The key assumptions used for value-in-use calculations in 2013 and 2012 are as follows:

As at 31 December 2013	Drill pipes and related products	Coating materials and services
Gross margin	**38%**	**49%**
Discount rate	**16%**	**16%**

As at 31 December 2012	Drill pipes and related products	Coating materials and services
Gross margin	38%	41%
Discount rate	16%	16%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2013.

8 INTANGIBLE ASSETS (continued)

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

	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000
Cost of sales	**2**	2
Administrative expenses	**539**	485
	541	487

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Group

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

	As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000
Associates	**29,138**	53,683
Joint ventures	**42,038**	21,828
	71,176	75,511

The amount recognised in the consolidated income statement are as follows:

	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000
Associates	**5,301**	1,716
Joint ventures	**(4,533)**	(945)
	768	771

(a) Investments in associates – Group

	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000
Beginning of year	**53,683**	53,539
Share of results of associates	**5,301**	1,716
Transfer from investment in an associate to investment in a subsidiary upon acquisition of additional equity interest in Nantong Hilong *(Note 34(b))*	**(27,254)**	–
Dividends declared	**(2,592)**	(1,572)
	29,138	53,683

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(a) Investments in associates – Group (continued)

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

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principle activities
			2013	2012	
Nantong Hilong	30 April 2007, Jiangsu, the PRC	RMB105,880,000	N/A	41%	Manufacture and distribution of special steel
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	12 February 2007, Shandong, the PRC	RMB20,000,000	30%	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	22 November 2010, Liaoning, the PRC	RMB15,000,000	30%	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	20 November 2004, Shanxi, the PRC	RMB18,000,000	22.95%	22.95%	Coating service provision

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

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Profit RMB'000	Net assets RMB'000
Year ended 31 December 2013	62,726	33,588	72,538	5,301	29,138
Year ended 31 December 2012	133,993	80,310	133,520	1,716	53,683

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

(b) Investments in joint ventures – Group

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Beginning of year	21,828	5,143
Investments in a new joint venture	24,500	–
Increase in investments in a joint venture	–	17,547
Share of results of the joint ventures	(4,533)	(945)
Realization of unrealized profit	243	83
End of year	42,038	21,828

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

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

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

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principal activities
			2013	2012	
Hilong Temerso Co., Ltd.	23 August 2011, Russia	RBL1,000,000	**56%**	56%	Coating service provision
Shanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	24 July 2013, the PRC	RMB50,000,000	**49%**	N/A	Coating service provision

	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Losses RMB'000	Net assets RMB'000
Year ended 31 December 2013	**46,363**	**4,325**	**7,032**	**4,533**	**42,038**
Year ended 31 December 2012	27,480	5,652	4,197	945	21,828

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

10 OTHER LONG-TERM ASSETS

	As at 31 December 2013 RMB'000	2012 RMB'000
Prepayment for acquisition of a vessel	**60,969**	–
Long-term prepaid expenses	**50**	2,216
	61,019	2,216

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. As of 31 December 2013, Hilong Marine Engineering (Hong Kong) Limited made a prepayment of USD10,000,000 (equivalent to RMB60,969,000) to Zhenhua ZHPL3 Limited. Under the agreement, the Vessel is to be delivered on 30 April 2014.

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Group

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

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**47,482**	31,208
– to be recovered after more than 12 months	**51,654**	62,296
	99,136	93,504
Deferred income tax liabilities:		
– to be recovered within 12 months	**–**	–
– to be recovered after more than 12 months	**(76,872)**	(95,872)
	(76,872)	(95,872)

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

Deferred income tax assets	Tax losses and tax credits carried forward RMB'000	Impairment provision on assets RMB'000	Accruals RMB'000	Unrealized profit *(a)* RMB'000	Accelerated tax depreciation expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012	9,313	6,807	1,151	43,612	–	2,844	63,727
Credit/(charged) to the consolidated income statement	3,467	(537)	1,044	29,795	–	(1,097)	32,672
At 31 December 2012	12,780	6,270	2,195	73,407	–	1,747	96,399
Credit/(charged) to the consolidated income statement *(Note 28)*	6,599	(465)	558	(7,248)	5,319	2,465	7,228
At 31 December 2013	**19,379**	**5,805**	**2,753**	**66,159**	**5,319**	**4,212**	**103,627**

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

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize cumulative deferred income tax assets of RMB22,989,000 as at 31 December 2013 (31 December 2012: RMB13,533,000) in respect of the accumulated tax losses of certain subsidiaries. Accumulated tax losses amounting to RMB14,752,000, RMB19,363,000, RMB16,069,000, RMB20,824,000 and RMB20,946,000 will expire in years ending 31 December 2014 to 2018 respectively.

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries (Note 28) RMB'000	Gain on remeasuring existing equity interest in certain associate and joint ventures on acquisition RMB'000	Fair value adjustments on assets and liabilities upon acquistion RMB'000	Total RMB'000
At 1 January 2012	(86,951)	(2,895)	–	(89,846)
Charged to the consolidated income statement	(8,921)	–	–	(8,921)
At 31 December 2012	(95,872)	(2,895)	–	(98,767)
Credit/(charged) to the consolidated income Statement *(Note 28)*	19,000	(486)	(1,110)	17,404
At 31 December 2013	**(76,872)**	**(3,381)**	**(1,110)**	**(81,363)**

12 INVESTMENT IN SUBSIDIARIES

Company

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Investment, at cost:		
Unlisted shares	**–**	–
Capital contribution relating to share-based payment	**23,864**	20,325
	23,864	20,325

(a) Detail of the subsidiaries of the Group as at 31 December 2013 and 2012 are set out in Note 36.

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

13 INVENTORIES

Group

	As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000
Raw materials	**224,757**	166,233
Work in progress	**33,566**	32,988
Finished goods	**465,256**	373,278
Packing materials	**452**	497
Low value consumables	**13,694**	13,348
	737,725	586,344

The cost of inventories recognized as cost of sales amounted to approximately RMB890,216,000 for the year ended 31 December 2013 (2012: RMB940,119,000).

During the year ended 31 December 2013, the Group reversed inventory provision write-down brought forward from prior years of RMB4,923,000 (2012: RMB9,522,000) because some obsolete raw materials were subsequently used in the production. The amount reversed has been included in "Cost of sales" in the consolidated income statement (Note 22). As at 31 December 2013, the inventory provision was RMB12,219,000 (31 December 2012: RMB17,142,000).

14 TRADE AND OTHER RECEIVABLES

Group

	As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000
Bills receivable *(a)*	**105,781**	72,799
Trade receivables *(b)*		
– Due from related parties *(Note 35(c))*	**30,821**	26,282
– Due from third parties	**1,159,957**	1,041,354
Less: provision for impairment of receivables *(d)*	**(20,000)**	(23,383)
Trade receivables – net	**1,170,778**	1,044,253
Other receivables *(c)*	**128,402**	119,665
Prepayments	**128,802**	148,508
Dividend receivables *(Note 35(c))*	**648**	–
Trade and other receivables – net	**1,534,411**	1,385,225

As at 31 December 2013 and 2012, the fair value of the trade and other receivables of the Group, other than the prepayments which are not financial assets, approximated their carrying amounts.

14 TRADE AND OTHER RECEIVABLES (continued)

Group (continued)

As at 31 December 2013 and 2012, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
– RMB	**965,127**	1,018,336
– USD	**441,765**	244,241
– CAD	**73,744**	44,321
– KZT	**24,135**	30,283
– AED	**12,975**	10,339
– NGN	**6,551**	24,487
– HKD	**6,097**	10
– COP	**4,017**	13,208
	1,534,411	1,385,225

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

(b) The ageing analysis of trade receivables, before provision for impairment, as at 31 December 2013 and 2012 was as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade receivables, gross		
– Within 90 days	**804,505**	748,401
– Over 90 days and within 180 days	**121,358**	112,495
– Over 180 days and within 360 days	**115,478**	81,418
– Over 360 days and within 720 days	**91,221**	82,096
– Over 720 days	**58,216**	43,226
	1,190,778	1,067,636

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

As at 31 December 2013, trade receivables of RMB20,000,000 (31 December 2012: RMB23,383,000) were impaired and fully provided for impairment losses. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

14 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2013, trade receivables of RMB366,273,000 (31 December 2012: RMB295,852,000) were past due but not impaired. These mainly relate to the customers that are state-owned companies which have good trading records with the Group. Based on the past experiences, the directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
– Over 90 days and within 180 days	**121,358**	112,495
– Over 180 days and within 360 days	**115,478**	81,418
– Over 360 days and within 720 days	**91,221**	78,405
– Over 720 days	**38,216**	23,534
	366,273	295,852

(c) Details of other receivables are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Due from related parties *(Note 35(c))*	**39,999**	65,860
Staff advance	**13,945**	14,452
Value added tax refund	**38,648**	2,291
Due from non-controlling interests	**10,400**	2,750
Others	**25,410**	34,312
	128,402	119,665

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	**(23,383)**	(11,033)
Additional provision *(Note 22)*	**(4,454)**	(12,350)
Write off of receivables	**4,810**	–
Reversal of provision *(Note 22)*	**3,027**	–
At the end of the year	**(20,000)**	(23,383)

14 TRADE AND OTHER RECEIVABLES (continued)

Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Other receivables due from related parties *(Note 35(c))*	**1,333,198**	947,098
Dividends receivable *(Note 35(c))*	**593,397**	377,397
Prepayments	**20,099**	353
Trade and other receivables – net	**1,946,694**	1,324,848

As at 31 December 2013 and 2012, the fair value of the trade and other receivables of the Company, other than the prepayments which are not financial assets, approximated their carrying amounts.

The ageing analysis of trade and other receivables as at 31 December 2013 and 2012 was as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade and other receivables, gross		
– Within 360 days	**1,569,297**	1,107,451
– Over 360 days and within 720 days	**377,397**	217,397
	1,946,694	1,324,848

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
– USD	**1,087,938**	720,609
– RMB	**763,761**	543,359
– HKD	**94,995**	60,880
	1,946,694	1,324,848

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cash at bank and in hand *(a)*	**520,736**	486,927
Less: Restricted cash *(b)*	**(129,847)**	(82,965)
Cash and cash equivalents	**390,889**	403,962

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

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cash at bank and in hand are denominated in:		
– RMB	**317,301**	305,096
– USD	**117,937**	149,821
– HKD	**35,186**	5,062
– CAD	**28,417**	8,576
– NGN	**10,602**	7,955
– KZT	**3,866**	2,837
– COP	**2,322**	3,035
– RUB	**2,121**	–
– AED	**2,008**	4,475
– PKR	**933**	–
– EURO	**43**	70
	520,736	486,927
Restricted cash is denominated in:		
– RMB	**112,243**	59,951
– USD	**17,534**	20,852
– AED	**–**	1,940
– KZT	**70**	222
	129,847	82,965

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

15 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

Company

As at 31 December 2013, cash and cash equivalents of the Company are not restricted and are denominated in HKD of RMB8,801,000 and USD of RMB700,000 (31 December 2012: HKD of RMB3,819,000 and USD of RMB585,000).

16 DERIVATIVE FINANCIAL INSTRUMENTS

Group

	As at 31 December		As at 31 December	
	2013 Assets RMB'000	**2013 Liability RMB'000**	2012 Assets RMB'000	2012 Liability RMB'000
Interest rate swaps	**–**	**3,991**	–	–
Cross currency swap	**1,007**	**–**	–	–
Convertible bonds – embedded derivative *(Note 19(b))*	**–**	**–**	–	33,526
	1,007	**3,991**	–	33,526
Less non-current portion:				
Interest rate swaps	**–**	**3,668**	–	–
Convertible bonds – embedded derivative *(Note 19(b))*	**–**	**–**	–	33,526
	–	**3,668**	–	33,526
Current portion	**1,007**	**323**	–	–

(a) Interest rate swaps

During the year ended 31 December 2013, the Group entered into interest rate swaps with commercial banks, which have the economic effect of converting borrowings from floating rates to fixed rates. As at 31 December 2013, the notional principal amounts of the outstanding interest rate swaps were USD67,800,000 and HK$166,578,947 (31 December 2012: nil) and the fixed interest rates varied from 4% to 4.458% per annum. Gains and losses arising from the fair value change of the interest rate swaps were recognised in the consolidated income statements within "Financial cost/income".

(b) Cross currency swap

During the year ended 31 December 2013, the Group entered into a cross currency swap with a commercial bank. The principal amount under the outstanding cross currency swap contract at 31 December 2013 amounting to RMB50,000,000 (31 December 2012: nil) has been exchanged at inception and will be re-exchanged on expiry date at the same exchange rate used for intial principal exchange. Under the cross currency swap contract, only the fixed interest rate of 1.05% per annum on the original RMB principal amounts would be received by the Group. Gains and losses arising from the fair value change of the cross currency swap were recognised in the consolidated income statements within "Financial cost/income".

16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Convertible bonds – embedded derivative *(Note 19(b))*	–	33,526

17 ORDINARY SHARES

Group and Company

	Note	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary share (In RMB)
At 1 January 2012		1,595,216,000	159,521,600	133,927,000
Share repurchase	*(a)*	(3,876,000)	(387,600)	(314,000)
As at 31 December 2012		1,591,340,000	159,134,000	133,613,000
As at 1 January 2013		1,591,340,000	159,134,000	133,613,000
Issue of shares upon exercise of options	*(b)*	6,914,300	691,430	551,508
Issue of shares in connection with conversion of convertible bonds	*(c)*	97,187,500	9,718,750	7,732,136
As at 31 December 2013		**1,695,441,800**	**169,544,180**	**141,896,644**

(a) On 9 January 2012, 3,876,000 shares with a nominal value of HK$387,600 (equivalent to RMB314,000) were repurchased at a total consideration of HK$5,217,000 (equivalent to RMB4,229,000). All the shares repurchased were cancelled on delivery of share certificates and the nominal value of such cancelled shares of RMB314,000 was credited to capital redemption reserve and paid out from the Company's retained earnings, and the relevant premium of RMB3,915,000 was paid out from the Company's share premium.

(b) During the year ended 31 December 2013, a total of 6,914,300 ordinary shares 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 (Note 18(b)(i)).

(c) During the year ended 31 December 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 19(b)) at the conversion price of HK$2.4 per share. The ordinary shares issued have the same rights as the other shares in issue.

18 OTHER RESERVES

	Group						
	Statutory reserve	Merger reserve	Share options reserve	Share premium	Capital redemption reserve	Capital reserve	Total
As at 1 January 2012	83,787	(141,549)	11,214	849,045	388	(38,653)	764,232
Appropriation to statutory reserve *(a)*	4,677	–	–	–	–	–	4,677
Pre-IPO share option plan *(b)*	–	–	9,111	–	–	–	9,111
Share repurchase *(Note 17(a))*							
– premium on repurchase of shares	–	–	–	(3,915)	–	–	(3,915)
– transfer	–	–	–	–	314	–	314
Consideration paid to the then equity owners for acquisition of subsidiary under common control *(Note 34(a))*	–	(380)	–	–	–	–	(380)
As at 31 December 2012	88,464	(141,929)	20,325	845,130	702	(38,653)	774,039
As at 1 January 2013	88,464	(141,929)	20,325	845,130	702	(38,653)	774,039
Appropriation to statutory reserve *(a)*	5,137	–	–	–	–	–	5,137
Issue of ordinary shares in connection with conversion of convertible bonds *(Note 19(b))*	–	–	–	305,954	–	–	305,954
Pre-IPO share option plan *(b)*	–	–	3,539	–	–	–	3,539
Exercise of share options *(b)*	–	–	(4,728)	18,503	–	–	13,775
Acquisiton of additional interests in a subsidiary *(Note (33))*	–	–	–	–	–	(383)	(383)
As at 31 December 2013	**93,601**	**(141,929)**	**19,136**	**1,169,587**	**702**	**(39,036)**	**1,102,061**

(a) Statutory reserve

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

For the years ended 31 December 2013, RMB5,137,000 (2012: RMB4,677,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

18 OTHER RESERVES (continued)

(b) Share options reserve

(i) Pre-IPO Share Option Plan

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

The movements in the number of share options outstanding and their related exercise prices are as follows:

	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December	
		2013	2012
At 1 January	2.60	**45,000,000**	45,519,000
Exercised	2.60	**(6,914,300)**	–
Forfeited	2.60	**(4,655,000)**	(519,000)
At 31 December	2.60	**33,430,700**	45,000,000

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

Vesting date	Exercise price (per share in HKD)	Outstanding shares Year ended 31 December	
		2013	2012
21 April 2012	2.60	**2,748,500**	9,000,000
21 April 2013	2.60	**7,402,200**	9,000,000
21 April 2014	2.60	**7,760,000**	9,000,000
21 April 2015	2.60	**7,760,000**	9,000,000
21 April 2016	2.60	**7,760,000**	9,000,000
		33,430,700	45,000,000

Out of the 33,430,700 outstanding options (2012: 45,000,000 options), 10,150,700 options (2012: 9,000,000 options) were exercisable. Options exercised in 2013 resulted in 6,914,300 shares (2012: nil) 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$4.6 per share.

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

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

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

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

The significant inputs into the model were as follows,

	Granting date In HKD	Equivalent to RMB
Spot share price	2.60	2.11
Exercise price	2.60	2.11
Expected volatility	55.98%	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

Share option expenses have been charged to the consolidated income statement as follows:

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cost of sales	**(338)**	1,570
Administrative expenses	**3,429**	6,250
Selling and marketing expenses	**448**	1,291
	3,539	9,111

(ii) 2013 Share Option Scheme

At the annual general meeting of the shareholders on 10 May 2013, the shareholders adopted a share option scheme (the "2013 Share Option Scheme") for options to subscribe for not more than 5% of the then total outstanding shares of the Company. The purpose of the 2013 Share Option Scheme is to provide incentive or reward to certain directors or employee of the Group for their contribution to the Group. Pursuant to the 2013 Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the 2013 Share Option Scheme would be 81,565,710 ordinary shares. Up to 31 December 2013, no shares were granted to key employees according to the 2013 Share Option Scheme.

18 OTHER RESERVES (continued)

	Company			
	Share options reserve RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Total RMB'000
As at 1 January 2012	11,214	849,045	388	860,647
Share repurchase				
– premium on repurchase of shares	–	(3,915)	–	(3,915)
– transfer	–	–	314	314
Pre-IPO share option plan	9,111	–	–	9,111
As at 31 December 2012	20,325	845,130	702	866,157
As at 1 January 2013	20,325	845,130	702	866,157
Issue of ordinary shares in connection with conversion of convertible bonds *(Note 19(b))*	–	305,954	–	305,954
Pre-IPO share option plan	3,539	–	–	3,539
Exercise of share options	(4,728)	18,503	–	13,775
As at 31 December 2013	**19,136**	**1,169,587**	**702**	**1,189,425**

19 BORROWINGS

Group

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Non-current		
Bank borrowing – secured *(a)*	**22,000**	88,068
Bank borrowing – unsecured	**484,676**	–
Convertible bonds *(b)*	**–**	204,903
	506,676	292,971
Current		
Bank borrowings – secured *(a)*	**140,694**	184,290
Bank borrowings – unsecured	**513,310**	461,971
	654,004	646,261
	1,160,680	939,232

19 BORROWINGS (continued)

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

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Bank borrowings:		
– USD	**564,448**	136,466
– RMB	**468,405**	597,863
– HKD	**127,827**	204,903
	1,160,680	939,232

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

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
As at 31 December 2013	**880,680**	**280,000**	**–**	**1,160,680**
As at 31 December 2012	734,329	–	204,903	939,232

The maturity of borrowings is as follows:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
On demand or within 1 year	**654,004**	646,261
Between 1 and 2 years	**191,658**	270,954
Between 2 and 5 years	**315,018**	22,017
	1,160,680	939,232

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

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Borrowings – current		
– RMB	**6.06%**	6.84%
– USD	**3.35%**	3.09%
Borrowings – non-current		
– HKD	**12.60%**	17.19%
– USD	**5.08%**	5.09%

The fair value of current borrowings equals their carrying amount as the discounting impact is not significant.

19 BORROWINGS (continued)

The carrying amounts and fair value of the non-current borrowings are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Carrying amount		
Bank borrowings	**506,676**	88,068
Convertible bonds	**–**	204,903
	506,676	292,971

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Fair value		
Bank borrowings	**506,676**	88,068
Convertible bonds	**–**	223,314
	506,676	311,382

The fair value of convertible bonds was derived based on cash flows discounted using the discount rate by reference to similar public companies. The non-current bank borrowings were obtained at variable interest rates and the fair values approximated their carrying amount.

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
USD facilities	**613,765**	41,484
RMB facilities	**535,750**	347,840
HKD facilities	**190,440**	–
	1,339,955	389,324

(a) Bank borrowings – secured

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Secured by property, plant and equipment and bank deposits *(i)*	**65,138**	122,010
Secured by bank deposits *(ii)*	**50,000**	25,348
Secured by property, plant and equipment *(iii)*	**47,556**	125,000
	162,694	272,358

19 BORROWINGS (continued)

(a) Bank borrowings – secured (continued)

i. The bank borrowings of RMB65,138,000 (31 December 2012: RMB122,010,000) were secured by certain machinery and equipment (Note 6) and bank deposits (Note 15(b)) of the Group, with a carrying amount of RMB47,107,000 and RMB39,145,000, respectively, as at 31 December 2013 (31 December 2012: RMB144,668,000 and RMB30,714,000, respectively).

ii. The bank borrowings of RMB50,000,000 (31 December 2012: RMB25,348,000) were secured by certain bank deposits (Note 15(b)) of the Group, with a carrying amount of RMB15,000,000, as at 31 December 2013 (31 December 2012: RMB5,070,000).

iii. The bank borrowings of RMB47,556,000 (31 December 2012: nil) were secured by certain machinery and equipment (Note 6) of the Group, with a carrying amount of RMB90,201,000, as at 31 December 2013. The bank borrowings of RMB125,000,000 were secured by certain buildings and facilities of the Group, with a carrying amount of RMB147,793,000, as at 31 December 2012.

(b) Convertible bonds

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

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

In February 2013, forty percent of convertible bonds with principal amount of HK$93,300,000 were converted to 38,875,000 ordinary shares (Note 17(c)) 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 share capital and share premium as consideration for the shares issued.

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 17(c)) 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 share capital and share premium as consideration for the shares issued.

19 BORROWINGS (continued)

(b) Convertible bonds (continued)

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

	The liability component (Borrowings) RMB'000	Derivative financial instruments RMB'000	Total RMB'000
As at 1 January 2012	178,741	12,810	191,551
Amortization using the effective interest method *(Note 27)*	29,829	–	29,829
Changes in fair value *(Note 26)*	–	20,712	20,712
Exchange difference *(Note 26)*	67	4	71
Interest settlement	(3,734)	–	(3,734)
As at 31 December 2012	204,903	33,526	238,429
Amortization using the effective interest method *(Note 27)*	10,544	–	10,544
Conversion of convertible bonds	(206,200)	(107,486)	(313,686)
Changes in fair value *(Note 26)*	–	75,892	75,892
Exchange difference *(Note 26)*	(3,949)	(1,932)	(5,881)
Interest settlement	(5,298)	–	(5,298)
As at 31 December 2013	**–**	**–**	**–**

Company

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Non-current		
Bank borrowing – guaranteed *(a)*	**484,676**	–
Convertible bonds	**–**	204,903
	484,676	204,903
Current		
Bank borrowings – unsecured	**60,969**	–
	545,645	204,903

19 BORROWINGS (continued)

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

	As at 31 December	
	2013 **RMB'000**	2012 RMB'000
Bank borrowings:		
– USD	**417,818**	–
– HKD	**127,827**	204,903
	545,645	204,903

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

	6 months or less RMB'000	**Between 6 and 12 months** RMB'000	**Between 1 and 5 years** RMB'000	**Total** RMB'000
As at 31 December 2013	**545,645**	**–**	**–**	**545,645**
As at 31 December 2012	–	–	204,903	204,903

The maturity of borrowings is as follows:

	As at 31 December	
	2013 **RMB'000**	2012 RMB'000
On demand or within 1 year	**60,969**	–
Between 1 and 2 years	**–**	204,903
Between 2 and 5 years	**484,676**	–
	545,645	204,903

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

	As at 31 December	
	2013 **RMB'000**	2012 RMB'000
Borrowings – current		
– USD	**3.94%**	–
Borrowings – non-current		
– HKD	**12.60%**	17.19%
– USD	**4.70%**	–

The fair value of current borrowings equals their carrying amount as the discounting impact is not significant.

19 BORROWINGS (continued)

The carrying amounts and fair value of the non-current borrowings are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Carrying amount		
Bank borrowings	**545,645**	–
Convertible bonds	**–**	204,903
	545,645	204,903

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Fair value		
Bank borrowings	**545,645**	–
Convertible bonds	**–**	223,314
	545,645	223,314

The fair value of convertible bonds was derived based on cash flows discounted using the discount rate by reference to similar public companies. The non-current bank borrowings were obtained at variable interest rates and the fair values approximated their carrying amount.

The Company had the following undrawn bank borrowing facilities:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
USD facilities	**531,955**	–
HKD facilities	**190,440**	–
	722,395	–

(a) Bank borrowings – guaranteed

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Guaranteed by certain subsidiaries	**484,676**	–

The Company's guaranteed borrowings represented a syndicated loan. In September 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 23 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD147,250,000 facility and a HK$408,812,500 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As of 31 December 2013, USD60,000,000 and HK$166,578,947 were drawn down. 15% of the loan principal will mature in 2015 and the remaining portion of 85% will mature in 2016.

20 DEFERRED REVENUE

Group

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Current – relating to certain research projects	**61**	400
Non-current – relating to certain production lines	**22,839**	20,989
	22,900	21,389

21 TRADE AND OTHER PAYABLES

Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bills payable	**142,126**	130,176
Trade payables:		
– Due to related parties *(Note 35(c))*	**1,247**	–
– Due to third parties	**339,710**	266,461
Other payables:		
– Due to third parties	**73,828**	42,316
Staff salaries and welfare payables	**29,489**	34,097
Advance from customers	**24,290**	82,757
Interest payables	**2,798**	1,456
Accrued taxes other than income tax	**24,691**	9,537
Dividends payable	**11,857**	10,933
Other liabilities	**11,212**	5,042
	661,248	582,775

As at 31 December 2013 and 2012, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax, which are not financial liabilities, approximated their carrying amounts due to their short maturities.

21 TRADE AND OTHER PAYABLES (continued)

As at 31 December 2013 and 2012, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
– RMB	**581,284**	558,898
– USD	**40,297**	9,480
– NGN	**22,273**	3,772
– PKR	**7,735**	–
– AED	**5,798**	5,375
– KZT	**2,893**	2,979
– CAD	**568**	2,229
– RUB	**359**	–
– HKD	**41**	42
	661,248	582,775

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade payables, gross		
– Within 90 days	**310,169**	136,215
– Over 90 days and within 180 days	**7,043**	36,435
– Over 180 days and within 360 days	**2,560**	85,149
– Over 360 days and within 720 days	**19,477**	5,361
– Over 720 days	**1,708**	3,301
	340,957	266,461

Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Other payables due to related parties *(Note 35(c))*	**190**	6,102
Other payables due to third parties	**42**	43
	232	6,145

As at 31 December 2013 and 2012, all trade and other payables of the Company were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

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

As at 31 December 2013, all trade and other payables of the Company were denominated in RMB(31 December 2012: denominated in USD).

22 EXPENSES BY NATURE

Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress *(Note 13)*	**(92,556)**	(95,426)
Raw materials and consumable used *(Note 13)*	**982,772**	1,035,545
Employee benefit expenses *(Note 23)*	**366,185**	301,412
Depreciation *(Note 6)*	**133,501**	104,644
Transportation expenses	**110,226**	77,882
Utilities and electricity	**89,327**	90,406
Entertainment expenses	**49,989**	47,827
Research and development expense	**42,510**	36,520
Travelling and communication expenses	**37,187**	27,634
Consulting expenses	**30,700**	22,074
Operating lease payments	**29,588**	31,386
Marketing and promotion expenses	**22,069**	24,598
Taxes and levies	**21,482**	22,483
Sales commission	**17,425**	30,616
Provision for impairment of receivables *(Note 14)*	**1,427**	12,350
Auditor's remuneration		
– Audit services	**3,057**	3,000
– Non-audit services	**637**	491
Amortization of lease prepayments *(Note 7)*	**2,058**	1,023
Amortization of intangible assets *(Note 8)*	**541**	487
Reversal of provision for inventory write-down *(Note 13)*	**(4,923)**	(9,522)
Miscellaneous	**6,710**	6,550
Total cost of sales, selling and marketing and administrative expenses	**1,849,912**	1,771,980

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Wages and salaries	**318,039**	256,963
Social security costs	**44,607**	35,338
Share options *(Note 18(b))*	**3,539**	9,111
	366,185	301,412

24 DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

Group

(a) Directors' and chief executives' emoluments

The remuneration of every director and the chief executive for the years ended 31 December 2013 and 2012 are set out as follows:

	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000
Directors		
Directors' fees	**376**	291
Salaries	**4,591**	4,620
Discretionary bonus and allowances	**2,221**	2,212
Social security costs	**268**	288
Share options *(Note 18(b))*	**809**	1,295
	8,265	8,706

There was no chief executive who was not director.

No individual has waived or agreed to waive any emoluments.

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

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

24 DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS (continued)

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

The remuneration of every director and the chief executive for the year ended 31 December 2012 is set out as follows:

	Fees RMB'000	Salaries RMB'000	Discretionary bonus and allowances RMB'000	Social security costs RMB'000	Share options RMB'000	Total RMB'000
Year ended 31 December 2012						
Directors						
Zhang Jun (張軍)	–	960	535	57	123	1,675
Zhang Shunman (張姝嫚)	–	850	519	30	123	1,522
Ji Min (紀敏)	–	840	301	67	165	1,373
Yuan Pengbin (袁鵬斌)	–	840	382	67	442	1,731
Wang Tao (汪濤)	–	840	475	67	442	1,824
Datuk Syed Hisham Bin Syed Wazir	–	–	–	–	–	–
Li Huaiqi (李懷奇)	–	290	–	–	–	290
Liu Qihua (劉奇華)	97	–	–	–	–	97
Wang Tao (王濤)	97	–	–	–	–	97
Lee Siang Chin	97	–	–	–	–	97
Liu Haisheng (劉海勝)	–	–	–	–	–	–

(b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2013 include three (2012: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2012: two) individuals during the year are as follows:

	Year ended 31 December 2013 RMB'000	Year ended 31 December 2012 RMB'000
Salaries	**1,482**	1,782
Discretionary bonus and allowances	**1,339**	1,255
Social security costs	**136**	90
Share options *(Note 18(b))*	**552**	884
	3,509	4,011

The emoluments fell within the following bands:

	Year ended 31 December 2013	Year ended 31 December 2012
Emolument bands:		
Nil to HK$2,000,000 (equivalent to RMB1,572,400)	**–**	–
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,572,400 to RMB1,965,500)	**2**	1
HK$2,500,001 to HK$3,000,000 (equivalent to RMB1,965,500 to RMB2,358,600)	**–**	1
	2	2

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

25 OTHER INCOME

Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Gain on remeasuring existing interest in Nantong Hilong *(Note 34(b))*	**1,945**	–

26 OTHER LOSSES – NET

Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Government grants	**14,359**	13,159
Gains/(losses) on disposal of property, plant and equipment – net	**969**	(4,933)
Exchange losses	**(41,534)**	(2,622)
Changes in fair value of the embedded derivative of the convertible bonds including exchange difference *(Note 19(b))*	**(73,960)**	(20,716)
Others	**(31)**	245
	(100,197)	(14,867)

27 FINANCE COSTS – NET

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Finance income:		
– Fair value gain on cross currency swap	**1,007**	–
– Exchange gain	**5,185**	–
– Interest income derived from bank deposits	**2,275**	1,503
	8,467	1,503
Finance cost:		
– Interest expense on bank borrowings	**(56,689)**	(43,398)
– Amortization of the liability component of convertible bonds *(Note 19(b))*	**(10,544)**	(29,829)
– Fair value losses on interest rate swaps	**(3,991)**	–
	(71,224)	(73,227)
Finance costs – net	**(62,757)**	(71,724)

28 INCOME TAX EXPENSE

Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Current income tax	**96,328**	68,897
Deferred income tax *(Note 11)*	**(24,632)**	(23,751)
Income tax expense	**71,696**	45,146

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before tax	**442,205**	406,573
Tax calculated at statutory tax rates applicable to each group entity	**83,006**	43,374
Tax effect of:		
Expenses not deductible for tax purpose	**6,373**	4,820
Reversal of deferred tax liability related to withholding tax on dividends	**(19,000)**	–
Tax effect of tax exemption and reduced tax rate under tax holiday *(a)*	**–**	(4)
Additional deduction for research and development expense *(b)*	**(3,017)**	(1,555)
Utilisation of tax credits	**–**	(3,616)
Utilisation of previously unrecognized tax losses	**–**	(524)
Tax losses of subsidiaries not recognized	**4,334**	2,651
Tax charge	**71,696**	45,146

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

Enterprises incorporated in British Virgin Islands, Dubai, Abu Dhabi and Labuan (Malaysia) 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 year ended 31 December 2013 and 2012.

Enterprises incorporated in other places (other than the PRC) are subject to income tax rates of 16.5% to 35% prevailing in the places in which the Group operated for the year ended 31 December 2013 (31 December 2012: 16.5% to 33%).

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 are qualified for new/high-tech technology enterprises status and enjoyed preferential income tax rate of 15% for three years.

28 INCOME TAX EXPENSE (continued)

Pursuant to the CIT Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. 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 a resolution of the Board of Directors in December 2013, all the earnings generated from those domestic subsidiaries during the year ended 31 December 2013 will all be permanently reinvested. Meanwhile prior years' earnings of RMB190,000,000 that was intended to be distributed base on management's past estimation would no longer be distributed to its overseas parent company. Such amount will also be reinvested. Accordingly, the related deferred tax liability of RMB19,000,000 was reversed in 2013 with the deferred income tax expenses credited in the consolidated income statement. As at 31 December 2013, the permanently reinvested unremitted earnings totalled RMB763,330,000 (31 December 2012: RMB296,420,000). Accordingly, deferred income tax liabilities of RMB76,333,000 have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB763,330,000 as at 31 December 2013.

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

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

	Year ended 31 December	
	2013	2012
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.*	**15%**	15%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	15%

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

* Hilong Drill Pipe (Wuxi) Co., Ltd is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2011 to 2013.

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2011 to 2013.

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

* Shanghai Hilong Shine New Material Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax of 15% for the three years from 2011 to 2013.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2013 and 2012.

(b) Additional deduction for research and development expense

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

29 EARNINGS PER SHARE

Group

Basic

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

	Year ended 31 December	
	2013	2012
Profit attributable to equity owners of the Company (RMB'000)	**344,630**	345,001
Weighted average number of ordinary shares in issue (thousands of shares)	**1,662,526**	1,591,425
Basic earnings per share (RMB per share)	**0.2073**	0.2168

Diluted

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

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 years ended 31 December 2013 and 2012, the impact of weighted outstanding shares from convertible bonds on earnings per share was anti-dilutive.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the diluted earnings per share for the year ended 31 December 2013 was shown as:

	Year ended 31 December 2013
Earnings	
Profit attributable to equity owners of the Company (RMB'000)	**344,630**
Weighted average number of ordinary shares in issue (thousands of shares)	**1,662,526**
Adjustments for share options (thousands of shares)	**14,325**
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	**1,676,851**
Diluted earnings per share (RMB per share)	**0.2055**

For the year ended 31 December 2012, as the average market share price of the ordinary shares was lower than the subscription price, the impact of share options outstanding on earnings per share was anti-dilutive.

30 DIVIDENDS

Group and Company

Pursuant to a resolution of the Board of Directors on 21 March 2014, a final dividend of HK$0.0770 (equivalent to approximately RMB0.0605) per share for the year ended 31 December 2013 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 30 May 2014 to the shareholders of the Company whose names appear on the register of members of the Company as at 26 May 2014. The total amount is estimated to be HK$130,599,000 (equivalent to approximately RMB102,677,000). These financial statements do not reflect this dividend payable.

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 year ended 31 December 2013 and paid out.

The dividend in respect of 2011 of HK$0.0690 (equivalent to approximately RMB0.0559) per share, amounting to a total dividend of HK$109,802,000 (equivalent to approximately RMB89,017,000) was approved at the Company's annual general meeting on 11 May 2012. It was reflected as an appropriation of retained earnings for the year ended 31 December 2012 and paid out.

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

31 CASH GENERATED FROM OPERATIONS

Group

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Profit for the year before income tax	**442,205**	406,573
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**133,501**	104,644
– Amortization of lease prepayments *(Note 7)*	**2,058**	1,023
– Amortization of intangible assets *(Note 8)*	**541**	487
– Reversal of provision for inventory write-down *(Note 13)*	**(4,923)**	(9,522)
– Provision for impairment of receivables *(Note 14)*	**1,427**	12,350
– Share of profit of investments accounted for using equity method *(Note 9)*	**(768)**	(771)
– Finance costs *(Note 27)*	**65,032**	73,227
– Other income *(Note 25)*	**(1,945)**	–
– Net (gains)/losses on disposal of property, plant and equipment *(Note 26)*	**(969)**	4,933
– Losses on the changes in fair value of the embedded derivative of the convertible bonds *(Note 26)*	**73,960**	20,716
– Share option expenses *(Note 18(b))*	**3,539**	9,111
	713,658	622,771
Changes in working capital:		
– Increase in trade and other receivables	**(119,469)**	(89,267)
– Increase in inventories	**(106,452)**	(67,312)
– (Increase)/decrease in restricted cash	**(28,521)**	1,620
– Increase in deferred revenue	**1,511**	739
– Decrease in trade and other payables	**(46,678)**	(31,453)
– Cash generated from operations	**414,049**	437,098

31 CASH GENERATED FROM OPERATIONS (continued)

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

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

	Year ended 31 December	
	2013 **RMB'000**	2012 RMB'000
Net book amount *(Note 6)*	**1,716**	101,871
Net gain/(losses) on disposal of property, plant and equipment *(Note 26)*	**969**	(4,933)
Proceeds from disposal of property, plant and equipment	**2,685**	96,938
Collected	**2,685**	96,938
Not yet collected	**–**	–
	2,685	96,938

(c) Non-cash transactions

There were no significant non-cash transactions in 2013 and 2012.

32 COMMITMENTS

Group

(a) Capital commitments

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

	As at 31 December	
	2013 **RMB'000**	2012 RMB'000
Property, plant and equipment	**1,027,293**	87,211

(b) Operating lease commitments

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

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

	As at 31 December	
	2013 **RMB'000**	2012 RMB'000
No later than 1 year	**8,337**	6,210
Later than 1 year and no later than 3 year	**14,116**	5,191
Later than 3 years	**11,314**	14,549
	33,767	25,950

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Group

Acquisition of additional interest in a subsidiary

On 31 December 2013, Hilong Group of Companies Ltd., a wholly owned subsidiary of the Group, acquired an additional 1% equity interest in Shanghai Hilong Special Oil Pipe Co., Ltd. for a purchase consideration of RMB1,560,000. The carrying amount of the non-controlling interests in Shanghai Hilong Special Oil Pipe Co., Ltd. on the date of acquisition was RMB1,177,000. The Group recognised a decrease in non-controlling interests of RMB1,177,000 and a decrease in equity attributable to owners of the Company of RMB383,000. The effect of changes in the ownership interest of Shanghai Hilong Special Oil Pipe Co., Ltd. on the equity attributable to owners of the Company during the year is summarised as follows:

	RMB'000
Carrying amount of non-controlling interests acquired	1,177
Consideration paid to non-controlling interests	(1,560)
Excess of consideration paid recognised within equity	(383)

There was no transaction with non-controlling interests in 2012.

34 BUSINESS COMBINATION

Group

(a) Business combination under common control

There was no business combination under common control in 2013.

On 13 June 2012, the Company acquired 100% equity interest in Hilong USA LLC. from Hailong International. Hailong International and the Group are ultimately controlled by Mr. Zhang Jun, the Controlling Shareholder and the control is not transitory. Accordingly, the transaction has been accounted for on the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, under which the net assets of Hilong USA LLC. were consolidated by using the existing book values and the consolidated income statements included the results of Hilong USA LLC. from the earliest date presented. The consideration of USD60,000 (equivalent to RMB380,000) transferred for the acquisition were debited to other reserve as a deemed distribution to the Controlling Shareholder.

(b) Acquisition of Nantong Hilong

The Group originally held a 41% equity interest in Nantong Hilong, a drill pipe component producer, through Hilong Group of Companies Ltd., one of the subsidiaries of the Group. In July 2013, Hilong Group of Companies Ltd. acquired an additional 44% equity interest in Nantong Hilong from Zhongxing Energy Equipment Co., Ltd. and obtained the control of Nantong Hilong. After the acquisition, the Group's effective equity interest in Nantong Hilong increased from 41% to 85%.

As a result of the acquisition, the Group is expected to increase its presence in the domestic market. It also expects to reduce costs through economies of scale. The goodwill of RMB3,864,000 arising from the acquisition is attributable to acquired customer base and economies of scale expected from combining the operations of the Group and Nantong Hilong. None of the goodwill recognised is expected to be deductible for income tax purposes.

34 BUSINESS COMBINATION (continued)

(b) Acquisition of Nantong Hilong (continued)

The following table summarised the consideration paid for Nantong Hilong, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	RMB'000
Consideration:	
Total cash consideration	35,200
Total consideration transferred	
Fair value of equity interest held before the business combination	29,199
Total consideration	**64,399**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment *(Note 6)*	83,562
Lease prepayments *(Note 7)*	6,963
Inventories	40,006
Trade and other receivables	70,029
Cash and cash equivalents	5,249
Trade and other payables	(119,591)
Borrowings	(15,000)
Total identifiable net assets	**71,218**
Non-controlling interest	(10,683)
Goodwill *(Note 8(a))*	3,864
	64,399

The Group recognised a gain of RMB1,945,000 as a result of measuring at fair value its 41% equity interest in Nantong Hilong held before the business combination. The gain is included in "Other income" in the consolidated income statement for the year ended 31 December 2013. As of 31 December 2013, the unpaid cash consideration due to Zhongxing Energy Equipment Co., Ltd. amounted to RMB12,248,000.

The revenue included in the consolidated income statement since July 2013 contributed by Nantong Hilong was RMB29,210,000. Nantong Hilong also contributed losses of RMB160,000 over the same period.

Had Nantong Hilong been consolidated from 1 January 2013, the consolidated income statement would show pro-forma revenue of RMB2,500,484,000 and profit attributable to the equity owners of the Company of RMB341,020,000.

35 RELATED PARTY TRANSACTIONS

Group and Company

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

The ultimate parent company of the Group is Hilong Group Limited, which owns 53.06% (31 December 2012: 56.69%) equity interest in the Company as at 31 December 2013. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2013 and 2012, and balances arising from related party transactions as at 31 December 2013 and 2012.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hailong International
Hilong Group Ltd.
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hilong Oil Investments Co., Ltd.
Jiangyan Hilong Wire Welding Co., Ltd.
Hilong Oil Pipe Co., Ltd.

(iv) Associates of the Group

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

(v) Joint ventures of the Group

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

* The Group acquired additional equity interest in Nantong Hilong and obtained control over it in 2013. The related party transactions with Nantong Hilong referred to the transactions before the acquisition. Details see Note 34(b).

(vi) Controlled by key management personnel

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

35 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statement, during the years ended 31 December 2013 and 2012, the Group had the following significant transactions with related parties:

	The Group Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**93,337**	43,851
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**9,505**	7,097
Hilong Temerso Co., Ltd	**1,748**	9,223
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**1,093**	15,365
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	1,008
	105,683	76,544
Purchase of materials:		
Nantong Hilong	**61,889**	44,579
Jiangyan Hilong Wire Welding Co., Ltd.	**1,610**	–
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**558**	–
	64,057	44,579
Consulting fee:		
Shanghai Yuanzhi Metallurgical Co., Ltd.	**200**	2,400
Shanghai Xinhao Technology Development Co., Ltd.	**–**	1,200
	200	3,600
Rental expenses:		
Beijing Huashi Hilong Oil Investments Co., Ltd.	**5,188**	5,128
Hilong Oil Pipe Co., Ltd.	**4,926**	2,178
	10,114	7,306

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

35 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	The Group As at 31 December	
	2013 RMB'000	2012 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**27,223**	19,206
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**3,598**	3,433
Hilong Temerso Co., Ltd.	**–**	2,602
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**–**	849
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	192
	30,821	26,282
Other receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**23,759**	20,686
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**7,678**	5,573
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**3,855**	14,503
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**2,970**	1,096
Hilong Temerso Co., Ltd.	**1,737**	1,647
Jiangyan Hilong Wire Welding Co., Ltd.	**–**	1,853
Nantong Hilong	**–**	20,502
	39,999	65,860
Prepayments to:		
Beijing Huashi Hilong Oil Investments Co., Ltd.	**5,188**	–
Nantong Hilong	**–**	28,676
Shanghai Yuanzhi Metallurgical Co., Ltd.	**–**	200
	5,188	28,876
Trade payables due to:		
Jiangyan Hilong Wire Welding Co., Ltd.	**689**	–
Anshan Hidlong Anti-corrosion Engineering Co., Ltd.	**558**	–
	1,247	–

35 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	The Company As at 31 December	
	2013 RMB'000	2012 RMB'000
Other receivables due from:		
Hilong Energy Limited	**968,680**	563,300
Hilong Oil Service Ltd.	**212,477**	219,050
Hilong Investment Ltd.	**151,126**	159,573
Hilong Petroleum Technology & Engineering Co., Ltd.	**915**	3,457
Hilong Petroleum Pipe Company	**–**	1,718
	1,333,198	947,098

	The Group As at 31 December	
	2013 RMB'000	2012 RMB'000
Dividend receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**648**	–

	The Company As at 31 December	
	2013 RMB'000	2012 RMB'000
Dividend receivables due from:		
Hilong Energy Holding Limited	**593,397**	377,397

	The Group As at 31 December	
	2013 RMB'000	2012 RMB'000
Dividends payable due to:		
Hailong International	**9,470**	9,470

35 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	The Company As at 31 December 2013 RMB'000	2012 RMB'000
Other payables due to:		
Shanghai Hilong Drill Pipe Co., Ltd.	**–**	5,912
Hilong Group of Companies Ltd.	**190**	190
	190	6,102

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand.

(d) Key management compensation

	Year ended 31 December 2013 RMB'000	2012 RMB'000
Salaries	**8,900**	10,100
Discretionary bonus and allowances	**4,984**	4,560
Social Security costs	**653**	556
Share options *(Note 18(b))*	**1,627**	2,636
	16,164	17,852

36 SUBSIDIARIES

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2013	2012	Direct/ Indirect	Principle activities
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 8 March 2002	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	PRC, 22 October 2003	USD4,000,000	**38.09%**	38.09%	Indirect	Coating service provision
Shanghai Hilong Shine New Material Co., Ltd.	PRC, 12 November 2003	RMB15,000,000	**100%**	100%	Indirect	Manufacture and distribution of coating materials

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2013	2012	Direct/ Indirect	Principle activities
Hilong Group of Companies Ltd.	PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 9 November 2005	RMB50,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	PRC, 29 December 2005	RMB3,000,000	**100%**	100%	Indirect	Manufacture and distribution of hardbanding materials
Hilong Investment Ltd.	Malaysia, 13 September 2006	USD100	**100%**	100%	Indirect	Investment holding
Shanghai Hilong Tubular Goods Research Institute	PRC, 27 October 2006	RMB5,000,000	**100%**	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Hilong Petroleum Pipe Company LLC	Abu Dhabi, 6 November 2006	AED1,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	PRC, 17 November 2006	RMB50,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Jiangsu Hilong Drill Pipe Co., Ltd.	PRC, 22 November 2006	RMB30,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006	KZT110,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007	CAD100	**100%**	100%	Indirect	Oil and gas equipment trading

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December 2013	Effective interests held by the Group% 31 December 2012	Direct/ Indirect	Principle activities
Nantong Hilong Steel Pipe Co., Ltd.	PRC, 30 April 2007	RMB105,880,000	**85%**	N/A	Indirect	Manufacture and distribution of special steel
Shanxi Tangrong Hilong Drill Tools Co., Ltd.	PRC, 1 January 2008	RMB40,000,000	**51%**	51%	Indirect	Manufacture and distribution of oil and gas equipment
Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd.	PRC, 7 January 2008	RMB20,000,000	**45.4%**	45.4%	Indirect	Coating service provision
Hilong Energy Limited	Hong Kong, 8 July 2008	HK$1	**100%**	100%	Indirect	Investment holding
Hilong Oil Service and Engineering Co., Ltd.	PRC, 16 July 2008	RMB80,000,000	**95%**	95%	Indirect	Oilfield service provision
Hilong USA LLC.	USA, 9 November 2008	USD1,030,000	**100%**	100%	Indirect	Oil and gas equipment trading
Shanghai Hilong Special Steel Pipe Co., Ltd.	PRC, 5 January 2009	RMB120,000,000	**100%**	99%	Indirect	Manufacture and distribution of oil and gas equipment
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	PRC, 13 January 2009	RMB10,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD10,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltda.	The Republic of Ecuador, 18 March 2009	USD400	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	PRC, 9 June 2009	RMB6,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	PRC, 18 September 2009	RMB20,000,000	**51%**	51%	Indirect	Coating service provision

36 SUBSIDIARIES (continued)

Company name	Country/place and date of incorporation	Issued and paid up capital/ registered capital	Effective interests held by the Group% 31 December		Direct/ Indirect	Principle activities
			2013	2012		
Hilong Drilling & Supply FZE	Dubai, 15 December 2009	AED1,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision
Taicang Hilong Anti-Corrosion Technology Engineering Co., Ltd.	PRC, 29 September 2010	RMB15,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service & Sucursal Colombia Ltd.	Columbia, 26 April 2012	COP90,734,500	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	PRC, 1 November 2012	RMB10,000,000	**100%**	100%	Indirect	Research and development on the technology of coating services
Trade House Hilong-Rus Co. Ltd.	Russia, 25 March 2013	RUB300,000	**100%**	N/A	Indirect	Oil and gas equipment trading
Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd.	Pakistan, 4 April 2013	PKR5,000,000	**100%**	N/A	Indirect	Oil Service provision
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.	PRC, 11 October 2013	RMB50,000,000	**100%**	N/A	Indirect	Research, inspection and repairment of oil and gas equipment
Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Ltd.	Hong Kong, 9 December 2013	HK$1,000,000	**70%**	N/A	Indirect	Offshore Oilfield service provision
Hilong Marine Engineering (Hong Kong) Ltd.	Hong Kong, 16 December 2013	HK$1,000,000	**100%**	N/A	Indirect	Offshore Oilfield service provision

37 EVENTS AFTER THE BALANCE SHEET DATE

(a) Pursuant to a resolution of the Board of Directors on 21 March 2014, a dividend of HK$0.0770 (equivalent to approximately RMB0.0605) per share was proposed. Details refer to Note 30.

(b) On 5 February 2014, the Company granted, subject to acceptance of the grantees, share options to certain key employees under the 2013 Share Option Scheme adopted on 10 May 2013, to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per Share.

38 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 21 March 2014.

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

Consolidated Results	For the year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)	(Restated)
Revenue	**2,452,358**	2,264,373	1,833,519	1,379,482	1,009,451
Gross profit	**987,591**	895,280	751,322	563,794	377,033
Gross profit margin	**40.3%**	39.5%	41.0%	40.9%	37.4%
Operating profit	**504,194**	477,526	421,332	326,149	157,293
Operating profit margin	**20.6%**	21.1%	23.0%	23.6%	15.6%
Profit for the year	**370,509**	361,427	319,892	235,601	99,764
Profit attributable to:					
Equity owners of the Company	**344,630**	345,001	302,020	184,064	50,375
Non-controlling interests	**25,879**	16,426	17,872	51,537	49,389

Consolidated assets, equity and liabilities	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)	(Restated)
ASSETS					
Non-current assets	**2,013,386**	1,581,635	1,372,166	923,985	770,227
Current assets	**2,793,879**	2,458,496	2,204,963	1,861,035	1,406,661
Total assets	**4,807,265**	4,040,131	3,577,129	2,785,020	2,176,888
EQUITY AND LIABILITIES					
Total equity	**2,873,587**	2,305,434	2,038,622	890,161	991,720
Non-current liabilities	**610,055**	443,358	298,752	91,911	73,069
Current liabilities	**1,323,623**	1,291,339	1,239,755	1,802,948	1,112,099
Total liabilities	**1,933,678**	1,734,697	1,538,507	1,894,859	1,185,168
Total equity and liabilities	**4,807,265**	4,040,131	3,577,129	2,785,020	2,176,888

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