

[Press Release]



## HILONG 2013 ANNUAL RESULTS: REVENUE UP 8% TO RMB2,452 MILLION

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### STRATEGY OF INTEGRATED HIGH-END OILFIELD EQUIPMENT AND SERVICES HAS PROVEN SUCCESSFUL

### GROWTH OF OILFIELD SERVICES QUICKLY BECOMES A HIGHLIGHT

#### Financial Highlights (Audited)

RMB Million	For the Year Ended 31 December		
	2013	2012	Change
Revenue	2,452.4	2,264.4	+8.3%
Gross Profit	988.0	895.3	+10.4%
Gross Profit Margin (%)	40.3%	39.5%	+0.8ppt
Profit for the year	370.5	361.4	+2.5%
Non-GAAP Profit Attributable to Equity Owners of the Company	425.1	374.8	+13.4%

(Hong Kong, 23 March 2014) – **Hilong Holding Limited** (“Hilong” or the “Group,” stock code: 1623), a leading PRC-based integrated oilfield equipment and services provider, announced its audited annual results for the year ended 31 December 2013.

During 2013, the Group recorded a revenue of RMB2,452.4 million, representing a year-on-year increase of 8.3%. Gross profit increased by 10.4% to RMB988.0 million, while gross profit margin reached 40.3%. Profit for the year increased by 2.5% to RMB370.5 million. In 2013, the fair value decline of the embedded derivative of the convertible bonds, fair value losses on swap and certain share-based compensation expenses totaled RMB80.5 million. If such losses were excluded, the profit attributable to equity owners of the Company would be approximately RMB425.1 million, representing an increase of 13.4% compared to 2012. Basic and diluted earnings per share were RMB0.2073 and RMB0.2055 respectively. The Board of Directors recommended a final dividend of HK\$7.7 cents per share for 2013.

**Mr. Zhang Jun, Chairman and Chief Executive Officer** of Hilong, said, “In 2013, Hilong achieved satisfactory growth. The Group made notable progress in terms of improving the business structure, promoting high-end products and services, expanding into new markets and strengthening corporate governance. In particular, the revenue contribution from service provision including oilfield services and coating services continued to increase. This increase is a significant achievement in the expansion of the high-end services businesses demonstrating the success of Hilong’s consistent strategy of integrated development products and services.”

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During the period under review, the Group's three core business segments, including oilfield services, coating materials and services, drill pipes and related products have achieved significant progress, and accounted for 35.5%, 25.7% and 38.8% of the total revenue respectively. Revenue generated in domestic and overseas markets accounted for 49.7% and 50.3% of total revenue respectively.

### **Oilfield services segment**

In 2013, riding its rapid growth in the past few years, Hilong's oilfield services made a significant breakthrough. Revenue from this segment reached RMB873 million, soaring 41% year-on-year, remaining as the Group's strongest growth driver. During the year, Hilong not only maintained tremendous growth in the core drilling business, but also improved profitability by providing integrated services thereby achieving a more diversified growth. As of the end of 2013, the Group has a fleet of 12 drilling rigs and 3 workover rigs. All these high-end equipments ensured superior operating efficiency, and provide strong support to Hilong's development of more integrated oilfield services. In addition, Hilong's oilfield services have received recognition from overseas clients, which is a strong testament to Hilong's outstanding performance.

Hilong's oilfield services business is mainly distributed in Ecuador, Nigeria, Kazakhstan, etc. During the past year, the Group has also enhanced its strength to expand into new overseas markets. For example, Hilong has successfully entered into Pakistan, which is another important emerging market.

The outstanding performance of Hilong's oilfield services business has attracted several new customers. 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 partnership with the existing renowned international clients, Hilong has also successfully established good relationships with United Energy Petroleum and other new clients.

### **Coating materials and services segment**

The coating materials and services segment has seen notable results from the business structural adjustment in 2013 with a total revenue of RMB629 million, which basically remained steady as compared with 2012. Meanwhile, the gross 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 Corrosion Resistant Alloy (CRA) Lined Pipe. OCTG coating services, the most outstanding business within the segment, recorded a growth of 31%. The growth can be largely attributed to the expanded capacity from 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.

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In respect of the line pipe coating services, the production line of the newly developed Concrete Weighted Coating (“CWC”) commenced production in 2013 and scored a quick success. Hilong secured a contract to provide CWC for an offshore gas field project from China National Offshore Oil Corporation (“CNOOC”). The positive feedback indicates that Hilong is capable of developing the offshore line pipe coating services. Hilong also achieved a significant breakthrough in the large caliber CRA segment, winning several line pipe orders.

In relation to the traditional line pipe coating services business, the Group actively reallocate marketing resources according to focus on tapping into overseas markets. In 2013, Hilong successfully enhanced its presence in the high-end overseas markets through securing high profile orders. By concentrating on developing high margin businesses, the Group enhanced the profitability of the entire coating materials and services segment.

### **Drill pipes and related products segment**

The drill pipes and related products segment generated revenue of RMB951 million in 2013. Although there is a slight decrease from that of 2012, Hilong still maintained its leading market positions both domestically and internationally. In the PRC market, Hilong remained China Petroleum & Chemical Corporation’s (Sinopec) sole strategic supplier of drill pipes. As one of the main suppliers to China National Petroleum Corporation (CNPC), Hilong has continuously secured a significant share of its drill pipe procurement. Internationally, Hilong’s excellent technical advantages have been widely recognized by the overseas customers. Hilong has also made remarkable progress in market penetration via our overseas sales centers and successfully established market leadership positions in Canada, Russia, Central Asia and East Europe. We provided drill pipes and have established sustainable relationships with Weatherford International, Nabors Industries Ltd. and other well-known global companies in the oil & gas and related industries, which demonstrated Hilong’s strong market development capabilities.

During the reviewing year, Hilong has continuously focused on the development and promotion of the high end Non-API drill pipes. The product structure has been further optimized with the percentage of Non-API products increased to 32% from 29% in 2012. Furthermore, sales of the customized drill pipe components have increased considerably and have also boosted the sales of Non-API drill pipes.

Hilong’s vision is to establish a dynamic and integrated business system along with the value chain covering each segment that it operates, fully utilizing synergies among the segments and realizing more remarkable growth.

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The strategy for the oilfield services segment is to focus on strengthening the integrated services capabilities, and expanding the fleet of premium drilling rigs. Hilong will further complete the transition to being a one-stop comprehensive services supplier and turnkey contractor. We plan to continuously expand our OCTG coating services capacity by establishing new plants at selected sites. CRA and CWC are our key focuses for the future development of the line pipe coating services. Our newly introduced line pipe inspection business, which employs world-leading inspection technologies, has huge market potential and will further increase our presence along with the line pipe services value chain. For the drill pipes segment, while maintaining the product advantage, we will strive to develop drill pipe-related services by providing the clients with related services. This services-driven business model is aimed at strengthening cooperation with the oilfields, promoting high-end products and expanding revenue sources.

In 2014, we are also commencing new services, in particular, the offshore engineering services. The pipe-lay vessel “Hilong 106” is set for delivery soon and it is expected to start operation in 2014. The launch of the marine engineering segment starts the strategic transition from onshore to offshore operation for Hilong oilfield services. We firmly believe in Hilong’s huge potential in the promising offshore oil & gas resources industry.

**Mr. Zhang** concluded, “In 2014, we will enter into a new growth era driven by the offshore engineering services segment which will be launched soon. For our existing business segments, we will continue to increase the revenue contribution from services provision and high-end products and services as we exert greater efforts into expanding in overseas markets. Leveraging our strong capabilities, we are confident that Hilong will reach new heights, and continuously bring our shareholders fruitful returns.”

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#### **About Hilong Holding Limited**

Hilong Holding Limited is a leading PRC-based integrated oilfield equipment manufacturer and service provider with a focus on drill pipes, line pipe and OCTG coatings and oilfield services. It is China’s largest and the world’s second largest supplier of drill pipes and OCTG coatings, and the largest supplier of oil and gas line pipe coating materials in China. The Group has established a solid and diverse customer base, supported by the leading technologies and customized services.

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### **Appendix : Revenue by Business Segments**

	Year ended 31 December			
	2013		2012	
	RMB'000	%	RMB'000	%
<b>Drill pipes and related products</b>				
- 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
<b>Subtotal</b>	<b>950,680</b>	<b>38.8</b>	<b>1,010,868</b>	<b>44.6</b>
<b>Coating materials and services</b>				
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
<b>Subtotal</b>	<b>629,089</b>	<b>25.7</b>	<b>635,865</b>	<b>28.1</b>
<b>Oilfield Services</b>	<b>872,589</b>	<b>35.5</b>	<b>617,640</b>	<b>27.3</b>
<b>Total Revenue</b>	<b>2,452,358</b>	<b>100.0</b>	<b>2,264,373</b>	<b>100.0</b>