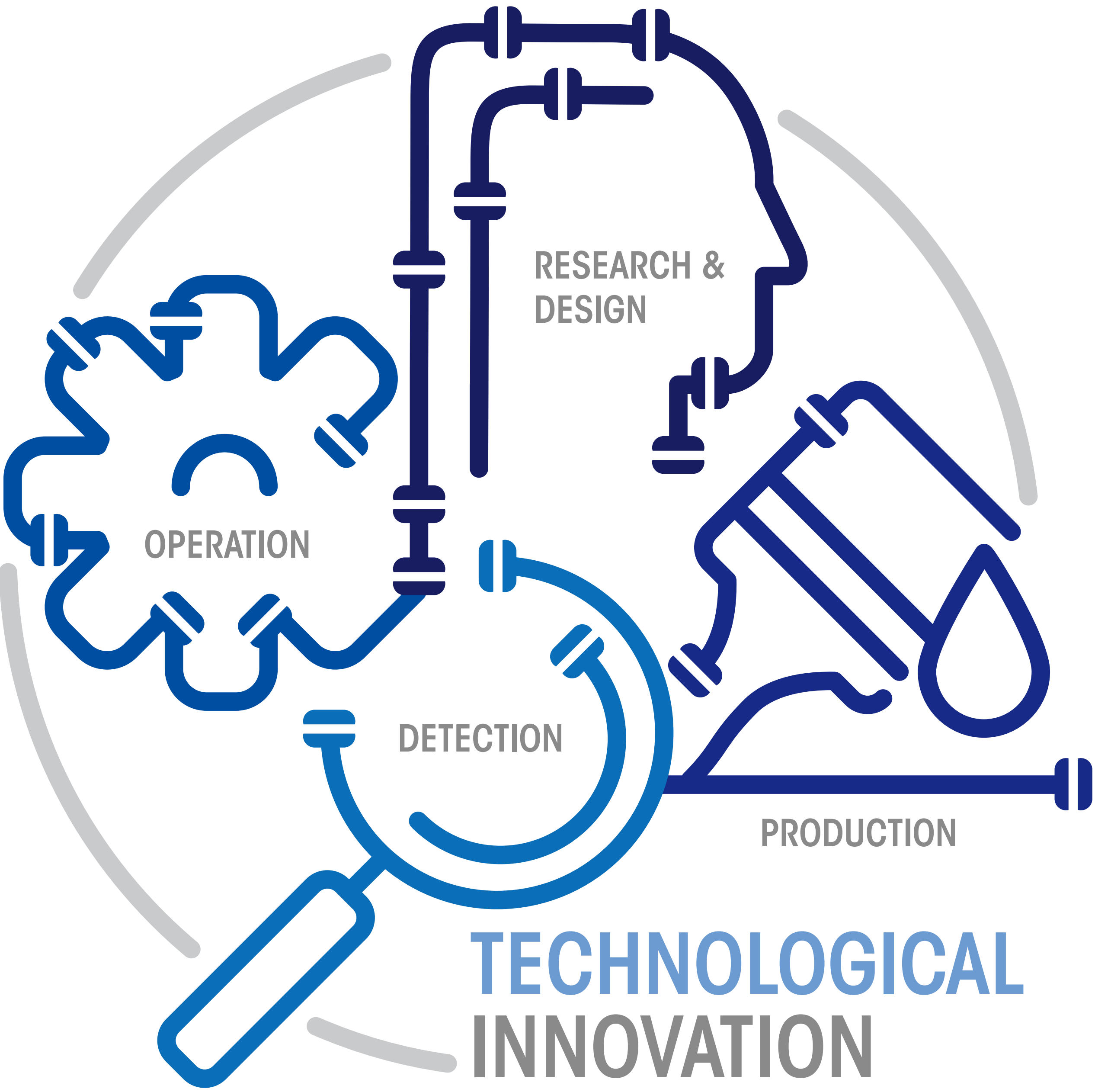
HILONG

海隆控股有限公司*

Hilong Holding Limited

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



TECHNOLOGICAL INNOVATION

ANNUAL REPORT 2018

* For identification purpose only

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Hilong Holding Limited ("**Hilong**", "**we**" or the "**Company**"), I hereby present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018 to our shareholders.

RESULTS

In 2018, the international oil price continued its recovery from last year, and has risen to the highest level in recent years in the second half of the year due to increased demand resulting from a strong global economy as well as production limitation agreement reached between the OPEC and key non-OPEC oil countries such as Russia but the world's major upstream oil companies remained cautious about increasing capital expenditures too fast and focused more on the quality and return of their investment profiles as the overall market condition still remain challenging. However, with the benefit of being an agile and diversified player in the market, Hilong maintained its sound growth in revenue in 2018, continued its expansion in the overseas onshore oilfield service segment and completed milestone offshore engineering service contracts in Southeast Asia. As a result, our revenue in 2018 increased by 20.7% to approximately RMB3,222.4 million from RMB2,669.3 million in 2017. Net profit amounted to RMB150.5 million, representing an increase of 19.8% from RMB125.7 million in 2017.

YEAR UNDER REVIEW

2018 was a year for Hilong to continue to solidify its strategy to expand its business internationally. With efforts devoted by all staff members of the Group, Hilong has continued its growing momentum from 2017 and all business segments achieved outstanding results.

The oilfield services segment generated revenue of RMB1,134.4 million in 2018, representing an increase of 28.8% from 2017 primarily resulting from further improvement of overall average utilization rate of rigs from last year and the decent performance in the integrated comprehensive services and OCTG trading activities. Meanwhile, Hilong obtained two new rig and workover contracts from two internationally renowned customers, Petroleum Development Oman ("**PDO**") and BP Iraq N.V. ("**BP**") during the year, which demonstrated that the Group's oil service business was highly recognized by overseas high-end customers. While maintaining healthy operations, the oilfield services segment diversified its businesses. Our first integrated services contract in Pakistan has achieved great success, which demonstrated our abilities to build technical services around drilling activities and offer customer integrated solutions that reduce their costs.

Since 2017, driven by the strong growth in demand from the overseas market, the production lines of drill pipes have exceeded full capacity for two consecutive years. With the exuberance in the existing market during 2018, the Group was able to selectively serve high-end customers and take up orders with higher margin. Meanwhile, as CNPC Group and Sinopec increased their upstream production and more efforts were put in mining in China, the domestic market has seen noticeable recovery, in particular, the shipments for drill pipes recorded a significant increase during the second half of the year as compared with the first half of the year. The oilfield equipment manufacturing and services segment achieved total revenue of RMB1,428.7 million, representing an increase of 8.6% from 2017.

Revenue from line pipe technology and services segment slightly declined from RMB329.5 million in 2017 to RMB326.4 million in 2018. This resulted from the reduction of the oil and gas line pipe coating materials and service businesses, partially offset by the increases in OCTG coating materials, Corrosion Resistant Alloy (CRA) lined pipe, Concrete Weight Coating (CWC) services and inspection service businesses. Sales of high-end products such as CRA almost doubled to RMB72.8 million and achieved double-digit increase for OCTG coating materials and CWC, while relatively lower margin products such as oil and gas line pipe coating materials and services were in negative growth. Additionally, a large CWC project contributed revenue of RMB90.9 million in 2018, making a 39% increase in revenue from the CWC services business in 2017. In addition to the exciting performance of each high-end product series, the Company has made various critical breakthroughs in the pipeline inspection service area. The Company has completed numerous self-development of pipeline inspection equipment with different diameters, self-development of pipeline inspection data analysis systems, as well as magnetic flux leakage testing (MFL) qualification and self-establishment of pipeline inspection and experiment facilities, which removed obstacles for the future business development.

In 2018, total working days in offshore engineering services significantly increased and offshore engineering services showed clear sign of recovery. During the period, the transportation and installation for three wellhead platforms and subsea pipelines under an engineering procurement construction installation contract in Thailand were successfully completed. We also completed wellhead platform installation services in Malaysia for Malaysia Marine and Heavy Engineering Holdings Berhad. Following renting out our "Hilong 106" barge to Saipem S.p.A to the installation for wellhead platforms and CRA subsea pipelines in the Bay of Bengal, our team demonstrated our capabilities for international client.

PROSPECTS

In 2019, with the continued recovery of oil and gas industry and the potential increase in global capital expenditure, the Company is confident in all business segments. The drilling service is one of the traditional business segments of the Company which has considerable advantages and is well recognized by overseas high-end customers. The two drilling and workover service contracts entered into between the Company and PDO and BP with initial terms of 10 years and 5 years, respectively, will make full contribution to the Company in 2019, and are expected to be the key sources of profit growth in 2019. Meanwhile, in the last quarter of 2018, the Company has renewed the existing rigs contracts with a number of important customers. Benefitted from this, we believe that the utilization rate of the existing rigs will further improve in 2019. On top of maintaining the drilling services, the Company will leverage its success in the integrated oilfield services in Pakistan and continue to put in effort to secure further integrated services contracts. In oilfield equipment manufacturing and services, we will keep trace with high value-added non-API products offering ensure that we achieve sound profit margins. With two OCTG coating factories already built in Russia where high quality coating differentiates us from many peer companies, we further increased OCTG service capacity in this region by investing in another factory which is expected to commence operation in 2019. In the US, with the increasing shale activities, we will continue to the cooperation of drill pipe leases, increase our presence in this market. US market will continue to be one of our focused markets. As a result of rising energy demand and environmental policy to shift from coal to natural gas, total investment in oil and gas pipeline will achieve RMB1,600 billion in the 13th and the 14th five-year plan in China. State-owned companies are also expected to spin off pipeline businesses and separately operate, which shows significant opportunities exist for non-stated owned companies. Leveraging on our years of experience in pipeline coating and inspection services and with the capabilities of producing own inspection equipment and analytical software, we aim to become a full life cycle integrated service provider that expands to other sectors including operation and big data maintenance. Having been significantly involved in the pipeline construction in the past many years, we believe building big data centre further around the pipeline network will provide us with a unique competitive advantage that improves customer stickiness. In offshore engineering service, the recovery is expected to continue with tendering activities rising considerably during the year and our secured contracts for 2019. In China the state-owned companies are looking to accelerate the development of both domestic and overseas markets, including those along the "One Belt and One Road", and we will be a stronger candidate to capture these opportunities.

In addition, we will continue to invest in research and development and stay at the forefront of technology innovation. In today's market, technology is the key to sustain long term profitability. We aim to continue to implement upgrades to our existing products and commercialize new products backed with leading technologies that are currently under development.

The Company firmly believes that with the leadership of the Board, it is able to seize the opportunities and cope with the challenges through persistence and perseverance, 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jun (張軍)
(Chairman and Executive Chairman)
Mr. Wang Tao (汪濤)
(Chief Executive Officer)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Li Huaiqi (李懷奇)
Dr. Yang Qingli (楊慶理)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Liu Haisheng (劉海勝)
Mr. Shi Zheyan (施哲彥)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Sham Ying Man (岑影文)

AUDIT COMMITTEE

Mr. Wong Man Chung Francis (黃文宗)
(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. Wong Man Chung Francis (黃文宗)

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Liu Haisheng (劉海勝)

COMPANY SECRETARY

Ms. Sham Ying Man (岑影文)

AUDITOR

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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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183 Queen's Road East, Wan Chai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch
Shanghai Pudong Development Bank, Baoshan Branch

STOCK CODE

1623

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FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**1,036,832**	**32.2**	1,037,083	38.9
– Oil country tubular goods ("**OCTG**") coating services	**225,501**	**7.0**	161,863	6.1
– Drill pipe components	**58,373**	**1.8**	67,412	2.5
– Hardbanding	**20,673**	**0.7**	18,350	0.7
– Others	**87,352**	**2.7**	31,524	1.1
Subtotal	**1,428,731**	**44.4**	1,316,232	49.3
Line pipe technology and services				
– OCTG coating materials	**63,994**	**2.0**	54,041	2.0
– Oil and gas line pipe coating materials	**7,948**	**0.2**	86,634	3.2
– Oil and gas line pipe coating services	**71,866**	**2.2**	81,172	3.0
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**72,836**	**2.3**	27,021	1.0
– Concrete Weighted Coating ("**CWC**") services	**90,886**	**2.8**	65,576	2.5
– Pipeline inspection services	**18,910**	**0.6**	15,092	0.6
Subtotal	**326,440**	**10.1**	329,536	12.3
Oilfield services	**1,134,413**	**35.2**	880,745	33.0
Offshore engineering services	**332,832**	**10.3**	142,834	5.4
Total revenue	**3,222,416**	**100.0**	2,669,347	100.0

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

	Year ended 31 December			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Russia, Central Asia and East Europe	**918,137**	**28.5**	908,926	34.1
The PRC	**873,600**	**27.1**	799,886	30.0
South Asia and Southeast Asia	**615,405**	**19.1**	427,483	16.0
North and South America	**399,308**	**12.4**	239,731	9.0
Africa	**279,867**	**8.7**	238,222	8.9
Middle East	**133,218**	**4.1**	53,916	2.0
Others	**2,881**	**0.1**	1,183	0.0
Total	**3,222,416**	**100.0**	2,669,347	100.0

Revenue increased by RMB553.1 million, or 20.7%, from RMB2,669.3 million in 2017 to RMB3,222.4 million in 2018. Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment, oilfield service segment and offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB112.5 million, or 8.5%, from RMB1,316.2 million in 2017 to RMB1,428.7 million in 2018. Such increase primarily reflected a significant increase in revenue derived from sales of OCTG coating services and US drill pipe rental business in the North America.

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

	Year ended 31 December	
	2018	2017
Sales of drill pipes		
– International market		
– volume (tonnes)	**45,614**	51,600
– unit price (RMB/tonne)	**18,390**	18,138
Subtotal (RMB'000)	**838,837**	935,893
– The PRC market		
– volume (tonnes)	**12,362**	6,642
– unit price (RMB/tonne)	**16,016**	15,234
Subtotal (RMB'000)	**197,995**	101,190
Total (RMB'000)	**1,036,832**	1,037,083

Revenue from sales of drill pipes in the international market decreased by RMB97.1 million, or 10.4%, from RMB935.9 million in 2017 to RMB838.8 million in 2018. The decrease primarily reflected a decrease of 11.6% in the volume of drill pipes sold from 51,600 tonnes in 2017 to 45,614 tonnes in 2018. Such decrease was due to the reason that the Company was emphasising on and prioritising production orders from long-term cooperation and reputable customers.

Revenue from sales of drill pipes in the PRC market increased by RMB96.8 million, or 95.7%, from RMB101.2 million in 2017 to RMB198.0 million in 2018. The increase primarily reflected a 86.1% increase in volume of drill pipes sold in the PRC market from 6,642 tonnes to 12,362 tonnes in 2018, and a 5.1% increase in average selling price in the PRC market from RMB15,234 per tonne in 2017 to RMB16,016 per tonne in 2018. The increase in the sales volume primarily reflected the increasing demand in domestic market. The increase in average for selling price primarily reflected the increase in the guideline price of American Petroleum Institute ("**API**") drill pipe products determined based on annual bid of both CNPC and Sinopec Group increased in 2018 compared to that in 2017.

Revenue from OCTG coating services increased by RMB63.6 million, or 39.3%, from RMB161.9 million in 2017 to RMB225.5 million in 2018. The increase was mainly due to the increased demands of OCTG coating services in the international market.

Line pipe technology and services. Revenue from line pipe technology and services segment decreased slightly by RMB3.1 million, or 0.9%, from RMB329.5 million in 2017 to RMB326.4 million in 2018. Such decrease primarily reflected a decrease in the revenue derived from oil and gas line pipe coating materials and services, partly offset by an increase in the revenue derived from OCTG coating materials, CRA lined pipe and CWC services.

The increase in revenue derived from OCTG coating materials reflected the Company's continuing efforts to strengthen its market position as well as to explore overseas market. The Company also took the initiative to adjust products structure to increase sales with high gross profit margin, and as a result of which, the sales of oil and gas line pipe coating materials and services decreased in 2018.

The increase in revenue derived from CRA lined pipe primarily reflected our capacities were occupied by several domestic and overseas projects, such as a project at Tarim Oilfield, a project at Xinjiang Keshan Block and a PPL project in Pakistan.

The increase in revenue from CWC services reflected that our capacities were mainly occupied by Baosteal Project and Bengal Project, which will contribute further to our revenue in the next year.

Oilfield services. Revenue from the oilfield services segment increased by RMB253.7 million, or 28.8%, from RMB880.7 million in 2017 to RMB1,134.4 million in 2018. Such increase was attributable to (i) the increase in oilfield services revenue generated from the improvement of overall average utilisation rate of drilling rigs, (ii) the increase in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients in 2018 as compared to 2017 and (iii) revenue contribution from the two rigs in Oman with an initial operation period of 10 years, which commenced operation in the fourth quarter of 2018.

Offshore engineering services. Revenue from the offshore engineering service segment in 2018 mainly comprised of revenue of RMB93.0 million from CPOC Project, RMB50.5 million from Sepeat Project, RMB106.0 million from Saipem Project and RMB77.8 million from shipping maintenance, consulting and management for a third-party pipe laying derrick barge.

Cost of Sales/Services

Cost of sales/services increased by RMB378.0 million, or 20.7%, from RMB1,823.7 million in 2017 to RMB2,201.7 million in 2018. Such increase primarily reflected the increase in the cost of oilfield services segment and offshore engineering services segment.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB175.1 million, or 20.7%, from RMB845.6 million in 2017 to RMB1,020.7 million in 2018. Gross profit margin was 31.7% in 2018, which remained generally the same as in 2017.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB44.5 million, or 26.4%, from RMB168.7 million in 2017 to RMB124.2 million in 2018, accounting for 3.9% of revenue in 2018 while 6.3% of revenue in 2017. This decrease was attributable to (i) the increase of sales was benefited from our widely recognised reputation among our customers in both domestic and international market; and (ii) a decrease of drill pipe transportation expenses primarily because two production lines have been relocated to Russia.

Administrative Expenses

Administrative expenses increased by RMB48.4 million, or 13.5%, from RMB357.4 million in 2017 to RMB405.8 million in 2018. Such increase primarily reflected the increase in staff costs, travelling expense and office expenditure.

Other Gain/(Losses) – Net

The Group recognised net gain of RMB56.9 million in 2018 and net loss of RMB94.9 million in 2017. The net gain recognised in 2018 reflected an exchange gain of RMB62.9 million from the operating activities as a combined result of the appreciation of the United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**"), and government grants of RMB8.9 million in relation to high and new-technology projects. The net loss recognised in 2017 reflected an exchange loss of RMB114.2 million, and government grants of RMB10.6 million in relation to new and high-technology projects.

EBITA margin

EBITA grow by 23.2% to RMB750.3 million in 2018. EBITA margin improved by 0.5 ppt to 23.3%, which reflects our improving cash generating ability.

Finance Costs – Net

Finance costs – net increased by RMB252.0 million, or 437.0%, from RMB57.7 million in 2017 to RMB309.7 million in 2018. Such increase primarily reflected (i) an exchange loss of RMB106.3 million from the financing activities resulting from the appreciation of USD and HKD, while in 2017 the exchange gain was RMB122.6 million; and (ii) the interest expense from bank borrowings increased from RMB196.2 million in 2017 to RMB212.5 million in 2018.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased by RMB60.9 million, or 35.5% from RMB171.6 million in 2017 to RMB232.5 million in 2018.

Income Tax Expense

The Group recognised income tax expense of RMB45.9 million in 2017 and RMB82.0 million in 2018. Effective tax rate was approximately 26.8% in 2017 and 35.3% in 2018. The increase in effective tax rate was mainly resulted from the change of income tax calculation method of some overseas companies.

Profit for the year attributable to equity owners of the Company

As a result of the foregoing, profit for the year attributable to equity owners of the Company increased by 29.5 million, or 24.8% from RMB119.2 million in 2017 to RMB148.7 million in 2018.

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 at the dates indicated as well as the turnover days of average inventory for the years indicated:

	As at/for the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Inventory	**889,138**	848,700
Turnover days of inventory (in days)[1]	**144**	164

(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 2017 and 2018. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The decrease in inventory turnover days from 164 days for the year ended 31 December 2017 to 144 days for the year ended 31 December 2018 primarily reflected an increase in the cost of sales recognised to the income statement in 2018 compared to that in 2017.

Trade and Other Receivables

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables		
– Due from third parties	**1,958,858**	1,901,756
– Due from related parties	**4,039**	5,925
– Less: Provision for impairment of receivables	**(154,978)**	(44,164)
Trade receivables-net	**1,807,919**	1,863,517
Other receivables		
– Due from third parties	**92,163**	95,055
– Due from related parties	**133,866**	107,262
Other receivables	**226,029**	202,317
Bills receivable	**48,913**	23,013
Dividend receivables	**2,036**	5,037
Total	**2,084,897**	2,093,884

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

	As at/for the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables, net		
– Within 90 days	**1,000,596**	814,464
– Over 90 days and within 180 days	**212,306**	195,656
– Over 180 days and within 360 days	**371,425**	332,458
– Over 360 days and within 720 days	**135,565**	266,502
– Over 720 days	**88,027**	254,437
	1,807,919	1,863,517
Turnover days of trade receivables, net[1]	**208**	238

(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 2017 and 2018. Average trade receivables equals 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.

The decrease in turnover days of trade receivables from 238 days for the year ended 31 December 2017 to 208 days for the year ended 31 December 2018 primarily reflected that settlement for trade receivables due from certain oil and gas companies in both domestic and international market was accelerated in 2018.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables, bills receivable and contract assets.

To measure the expected credit loss, trade receivables, bills receivable and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

The expected loss rates are based on the payment profiles of sales over prior years before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and PPI of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

	Year ended 31 December	
	2018	2017
Opening loss allowance as at beginning of the year		
– HKFRS 9	**143,457**	33,511
Provision for receivables loss allowance	**12,418**	10,653
Reversal of loss allowance	**(897)**	–
At the end of the year	**154,978**	44,164

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, 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	
	2018 RMB'000	2017 RMB'000
Bills payable	**206,909**	165,683
Trade payables		
– Due to related parties	**15,984**	30,265
– Due to third parties	**658,109**	645,654
Other payables		
– Due to related parties	**19,031**	36,021
– Due to third parties	**34,213**	34,815
Staff salaries and welfare payables	**44,168**	32,843
Interest payables	**7,026**	5,362
Accrued taxes (other than income tax)	**94,158**	40,675
Dividends payable	**4,109**	3,482
Other liabilities	**15,482**	10,699
	1,099,189	1,005,499

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 years indicated:

	As at/for the year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Trade payables, gross		
– Within 90 days	**458,889**	474,009
– Over 90 days and within 180 days	**170,886**	176,756
– Over 180 days and within 360 days	**28,656**	11,500
– Over 360 days and within 720 days	**12,812**	8,978
– Over 720 days	**2,850**	4,676
	674,093	675,919
Turnover days of trade payables[1]	**112**	119

(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 2017 and 2018. Average trade payables equals to balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Net cash generated from operating activities	**469,136**	255,970
Net cash used in investing activities	**(496,446)**	(179,055)
Net cash generated from/(used in) financing activities	**296,587**	(326,705)
Net increase/(decrease) in cash and cash equivalents	**269,277**	(249,790)
Exchange gains/(losses) on cash and cash equivalents	**3,447**	(18,618)
Cash and cash equivalents at beginning of the year	**389,014**	657,422
Cash and cash equivalents at end of the year	**661,738**	389,014

As at 31 December 2018, cash and cash equivalents are mainly denominated in RMB, USD, RUB, NGN, PKR and CAD.

Operating Activities

Net cash generated from operating activities in 2018 was RMB469.1 million, representing cash generated from operation of RMB585.4 million, offset by the income tax payment of RMB116.3 million.

Net cash generated from operating activities in 2017 was RMB256.0 million, representing cash generated from operation of RMB314.4 million, offset by the income tax payment of RMB58.4 million.

Investing Activities

Net cash used in investing activities in 2018 was RMB496.4 million, primarily reflecting payment of RMB489.5 million for purchases of property, plant and equipment and payment of RMB33.0 million for purchases of intangible assets, partially offset by proceeds of RMB11.8 million from disposal of property, plant and equipment.

Net cash used in investing activities in 2017 was RMB179.1 million, primarily reflecting payment of RMB233.2 million for purchases of property, plant and equipment, partially offset by proceeds of RMB38.2 million from disposal of property, plant and equipment and proceeds of RMB30.4 million from disposal of a subsidiary of the Group.

Financing Activities

Net cash generated from financing activities in 2018 was RMB296.6 million, primarily reflecting repayment of borrowings of RMB527.6 million and interest payment of RMB205.0 million, partially offset by proceeds of RMB1,027.0 million from borrowings.

Net cash used in financing activities in 2017 was RMB326.7 million, primarily reflecting repayment of borrowing of RMB2,831.9 million and interest payment of RMB225.4 million partially offset by proceeds of RMB2,721.7 million from borrowings.

Capital Expenditures

Capital expenditures were RMB232.8 million and RMB588.9 million in 2017 and 2018 respectively. The increase in capital expenditures in 2018 was mainly due to the increase in expenditures for overseas business development in oilfield service segment.

Indebtedness

As at 31 December 2018, the outstanding indebtedness of RMB3,070.6 million was mainly denominated in USD, HKD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current		
Senior Notes – unsecured	**2,106,656**	1,602,591
Bank borrowings – unsecured	**16,780**	660
Bank borrowings – secured	**480,527**	355,261
Less: Current portion of non-current borrowings	**(109,290)**	(53,072)
	2,494,673	1,905,440
Current		
Bank borrowings – secured	**97,185**	149,575
Bank borrowings – unsecured	**369,467**	341,365
Current portion of non-current borrowing	**109,290**	53,072
	575,942	544,012

As at 31 December 2018, bank borrowing of RMB2,706.9 million were obtained at fixed rate (31 December 2017: RMB2,255.5 million).

The bank borrowings of RMB217.2 million (31 December 2017: RMB108.7 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB49.6 million as at 31 December 2018 (31 December 2017: RMB45.8 million).

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounted to RMB400.0 million. These loan principals were secured by the Controlling Shareholder and his spouse. As at 31 December 2018, RMB385.0 million were drawn down, out of which RMB77.0 million had been repaid during 2017 and 2018. The principals will be fully repayable from 2019 to 2020.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 31 December 2018, USD29,000,000 were drawn down. The principals will be fully repayable from 2019 to 2024.

As at 31 December 2017, there were bank borrowings of USD3,200,000 borrowed by Shanghai Hilong Drill Pipe Co., Ltd., a subsidiary of the Group, which was secured by a non-guaranteed floating income financial products. As at 31 December 2018, the Group had fully repaid the loan.

As at 31 December 2017, there were bank borrowings of RMB20.0 million borrowed by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd, a subsidiary of the Group, which was secured by the non-controlling interest of the Group. As at 31 December 2018, the Group had fully repaid the loan.

On 18 January 2018, the Company issued US$60,000,000 7.25% senior notes due 2020 (the "**Additional 2020 Notes**") to be consolidated and to form a single series with the US$250,000,000 7.25% senior notes due 2020 the Company previously issued on 22 June 2017. The net proceeds of the Additional 2020 Notes amount to approximately US$59 million and will be used outside the PRC to refinance the Group's existing indebtedness, for working capital and general corporate purposes. The Additional 2020 Notes are listed on the Stock Exchange on 19 January 2018. As at 31 December 2018, the net proceeds of the Additional 2020 Notes had been fully utilized for the purpose as mentioned above.

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, restricted cash and financial assets at FVPL. Total capital is calculated as "**equity**" as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 31 December 2018 and 31 December 2017 are as follows:

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Total borrowings	**3,070,615**	2,449,452
Less: Cash and cash equivalents	**(661,738)**	(389,014)
Restricted cash	**(184,479)**	(150,006)
Financial assets at FVPL	**–**	(24,040)
Net debt	**2,224,398**	1,886,392
Total equity	**3,522,010**	3,463,775
Total capital	**5,746,408**	5,350,167
Gearing ratio	**38.71%**	35.26%

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 the USD. Foreign exchange risk arises from recognised 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 15.0% appreciation of RMB against the USD from 21 July 2005 to 31 December 2018. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 37.7% and 47.8% of the total revenue of the Group in 2017 and 2018, respectively.

Staff and Remuneration Policy

As at 31 December 2018, the total number of full-time employees employed by the Group was 3,405 (31 December 2017: 2,914). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2018:

On-site workers	2,174
Administrative	562
Engineering and technical support	436
Sales, marketing and after-sales services	108
Research and development	89
Company management	36
	3,405

Employee costs excluding the Directors' remuneration totalled RMB558.9 million.

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

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

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

BUSINESS REVIEW

Recovery in all main segments

Against the backdrop of a fluctuating oil market and challenging economic conditions, we placed strong emphasis on cash flow, risk management and profitability. Our OCTG coating business in Russia and the US continued to grow and we established long term relationships with high quality customers through obtaining milestone oilfield service contracts with Petroleum Development Oman ("**PDO**") in Oman and BP in Iraq. Shell also acknowledged our quality service in Albania by extending its contract with us for a period of 2 years. Our integrated business model allowed us to secure a sizable offshore engineering contract, providing pipeline construction services to China Petroleum Pipeline Engineering Co., Ltd, and a related CWC contract. We also developed our own pipeline inspection service equipment and data analysis software as well as investing in our integrated full life cycle pipeline management service to capture the rapid growth in China's pipeline network.

Led by strong performance in oilfield services, oilfield equipment manufacturing and services and offshore engineering services segments, the Group, revenue in 2018 increased by 20.7% to RMB3,222.4 million from RMB2,669.3 million in 2017. Net profit amounted to RMB150.5 million, representing an increase of 19.8% from RMB125.7 million in 2017. However, if excluding the non-cash translation costs resulted from the exchange gain and loss, the Company's core earnings increased from RMB117.4 million to RMB194.0 million, representing a 65.2% rise.

Oilfield Equipment Manufacturing and Services – Strong signal of recovery in domestic market

Revenue of RMB1,428.7 million was generated from oilfield equipment manufacturing and services segment in 2018, representing an increase of 8.5% from the previous year. Segment gross profit margin grew from 32.2% in 2017 to 33.5% in 2018, primarily due to increased OCTG coating services and US drill pipe businesses, which generally have a higher gross profit margin.

We shipped 58.0 thousand tons of drill pipe in 2018, compared to 58.2 thousand tons in 2017. We saw a noticeable pickup in demand in domestic market and sale volume nearly doubled from 6.6 thousand tons in 2017 to 12.4 thousand tons in 2018, along with a 5.1% rise in average selling price. Continued improvements in volume and selling price mark a strong comeback in China. Additionally, we saw improvements in obtaining payments from state-owned oil corporations as a result of the government's efforts to address historical and future payments to non-state owned companies. In international markets, sales in Russia reduced as a result of our efforts to drive profitability through focusing more on high margin orders and selecting high quality customers. Therefore, average selling price in Russia increased whereas volume reduced. Our drill pipe revenue in the US increased multiple times under a new rental model working with a local partner. We adopted a disciplined capital spending approach under the rental model in order to achieve sustainable growth.

Revenue generated from the OCTG coating services increased by 39.3% from RMB161.9 million in 2017 to RMB225.5 million in 2018. This arose from strong growth in overseas business, in particular our new coating factory in Russia, offset by the impact of adjusting formula from solvent based to powder based in China, in compliance with local government environmental policies. However, the adjustment will have positive effects for us in the long run.

Oilfield Services – established businesses with more high-end customers

We recognised revenue of RMB1,134.4 million from oilfield services segment in 2018, representing an increase of 28.8% from 2017. This primarily arose from improvement of overall average utilisation rate and continued increases in income from integrated services and OCTG trading activities.

Against a backdrop of fluctuating oil prices, we have been pursing customers with strong performance and good reputation and added two well-known companies to our customer base during the year. Leveraging on our established presence in the Middle East, we started a long-term relationship with PDO and entered into service contracts in January 2018 for 2 rigs in Oman with an initial operational period of 10 years, which can be further extended for up to 5 years. The annual contract value under each is no less than USD10 million per rig and this long-term award resulted from our improved service efficiency and track record of outstanding quality, health, safety and environmental performance that create value and reassurance for customers. This project started drilling at the end of 2018. In Iraq, we captured opportunities to work with BP and signed a USD85 million contract regarding the provision and operation of two onshore workover units commencing in 2019 for a primary period of 5 years, which can be further extended for a period of 1 year. Our long-term customer Shell acknowledged our service quality in Albania and awarded an contract extension for a period of 2 years with the total value of up to USD28 million. In Pakistan, execution of an integrated service contract is on track. This demonstrates our abilities to build technical services around drilling activities and offer customer integrated solutions that reduce their costs.

Line Pipe Technology and Services – breakthrough in high end products and considerable margin improvement

For line pipe technology and services segment, we recorded revenue of RMB326.4 million in 2018, which is almost on par with the previous year when we reported revenue of RMB329.5 million. Sales of high end product such as CRA lined pipe almost tripled and achieved double-digit increase from OCTG coating materials and CWC, while relatively lower margin product such as oil and gas line pipe coating materials and service was in negative growth. Such improvement of product mix led to segment gross profit margin hike from 24.4% in 2017 to 33.9% in 2018. It is worth noticing that we have been awarded an integrated pipeline anti-corrosion and weighted coating contract with China Petroleum Pipeline Coating Engineering Co., Ltd and the total consideration is no less than RMB173 million. Subsequently, the company has also been awarded an offshore installation contract related to the same project (see Offshore Engineering Services section).

While our high end market has been making impressive gain this year, the Company's services have also been breaking through in key areas. Services achieved breakthroughs in several areas such as the development of different diameters line pipe inspection equipment; the development of our own data analysis software for line pipe inspection; magnetic flux leakage detection ("**MFL**") certification and construction of our own inspection testing facility. Such breakthroughs pave the way for future growth in line pipe inspection services.

Offshore Engineering Services – sizable contract under "One Belt and One Road" initiatives

In line with the broad recovery in offshore industry, we generated revenue of RMB332.8 million in 2018, compared to that of RMB142.8 million in 2017, representing a 133.0% year-over-year improvement.

During the period, the transportation and installation for three wellhead platforms and subsea pipelines under an engineering procurement construction installation contract in Thailand were successfully completed. We also completed wellhead platform installation services in Malaysia for Malaysia Marine and Heavy Engineering Holdings Berhad. During the project, we achieved cost cutting while maintaining the quality of work in various areas including fuel, human resource and welding through measures such as process simplification and less subcontracting. Following several modifications in preparation for renting out our "**Hilong 106**" barge to Saipem S.p.A to serve in the Bay of Bengal, our team executed well under the rental contract and demonstrated our capabilities to coordinate with international first tier client.

Contributing to our future growth, we have been awarded a contract with an estimated total value of USD53.6 million from China Petroleum Pipeline Engineering Co., Ltd. Under the contract the company will provide 75 km offshore pipeline construction services, including pipeline pre- and post-survey, seabed preparation, submarine pipeline laying, trenching and backfilling, among others. This contract is related to another CWC product contract under the same "One Belt and One Road" project we won earlier. This new project is expected to commence operation by the end of 2019 and will help us further boost the recovery in our offshore engineering segment.

R&D and Innovation

In China, the Development and Reform Commission and Energy Bureau published "Mid-and-long-term oil and gas pipeline network planning" which proposed that by 2025, the scale of the national oil and gas pipeline network will reach 240,000 kilometers, representing an approximately 118% increase from 110,000 kilometers in 2015. We believe this creates huge opportunities for the company. With years of experience in coating and inspection services, we have been investing heavily in building our own: inspection service hardware and software; optical fibre monitoring; and technologies to form an integrated database continuously identifying and evaluating risks for the purposes of risk control and adverse factor elimination. These will provide customers with full lifecycle pipeline management, which integrates products and services and employs big data to assess risk level systematically (see section headed "Outlook" for more details). We have made significant progress in the development of pipeline inspection and our independent research centre and we develop inspection robot and data analysis system to evaluate defects. We also constructed our own test facility.

We reached advanced stages in the development of inside anti-corrosive coating for oil gathering pipelines and the potential market can reach tens of thousands of kilometres for each oilfield. This leverages on our existing competitive coating materials development capabilities and pipeline connection technologies and coating services can be performed through our coating factories in China and overseas. Responding to national environment protection policies we successfully switched from solvent-based coating to powder-based coating, which is more environment friendly as a result of our R&D capabilities.

Our products have been highly acknowledged by our customers across the globe. With the oil industry placing a strong emphasis on drilling efficiency, we are enhancing the performance of our drill pipe connection to achieve improvements on certain key technical aspects, such as torque, fatigue life, connecting speed and maintenance costs. We are also developing oilfield technical service offerings including clean fracturing fluid to increase oil production and improve drilling mud performance.

Outlook

Oil supply and demand are expected to be more balanced due to a conservative approach of exploration and production ("**E&P**") spending adopted by upstream companies to operate within generated cash flows. In 2019, we expect a more positive supply and demand balance sentiment that is likely to result in a gradual oil price recovery over the course of the year.

Disciplined capital allocation remains a priority for us and we pursue the best opportunities for growth and returns across the markets we serve. With a track record of serving high end customers, we place a strong focus on customer's financial and operational performance prior to entering into contracts with them and offer integrated solutions to lower their costs. Our integrated line pipe services in China is taking off at a time when the government is putting more and more emphasis on the national energy security and developing an ambitious plan for future pipeline construction. We are fully primed and ready for the opportunities and challenges that lay ahead, with a clear objective of exceeding the expectations of our stakeholders.

Oilfield Equipment Manufacturing and Services

Increased drilling activities and demand for high end quality drill pipe and coatings helped our continuing growth during 2018. Our integrated product model where premium connections, coating materials and hardbanding wire products are all designed and mainly manufactured in-house, and high value-added non-API products offering ensure that we achieve sound profit margins. Recent tendering activities show an increase in demand for our premium connections and other non-API drill pipe products in the Middle East and Russia. We relocated two drill pipe production lines to Russia in 2017 to bring products more quickly to our customers and to hedge risks including currency and tariff. With two OCTG coating factories already built in Russia where high quality coating differentiates us from many peer companies, we further increased OCTG service capacity in this region by investing in another factory which is expected to commence operation in 2019.

In the US, the new steel tariff and increasing shale activities, led to tightness in the drill pipe market. We took decisive actions to increase our presence in this market through working with local partner under drill pipe rental model. This led to a surge in revenue from the US and our localised OCTG coating operations also experienced strong demand. US market will continue to be one of our focused markets. Our drill pipes that are specially designed to suit the requirements of shale activities and our R&D capabilities which further improve this design will help us to gain market share. In domestic market, we saw encouraging growth in oil and gas activities in accordance with the government's strategy to make energy demand less dependent on imports. Both our drill pipe volume and average selling price increased during 2018 and we are actively exploring additional opportunities. OCTG coating business also benefited from the boom in China market. In line with the government's environment protection policies, our R&D capabilities allowed us to successfully switch from solvent-based coating to powder-based coating. Furthermore we saw Chinese state-owned upstream companies increased investment in domestic oil and gas exploration and the government addressed historical and future payables to non-state owned companies which is expected to vastly improve accounts receivables for these companies.

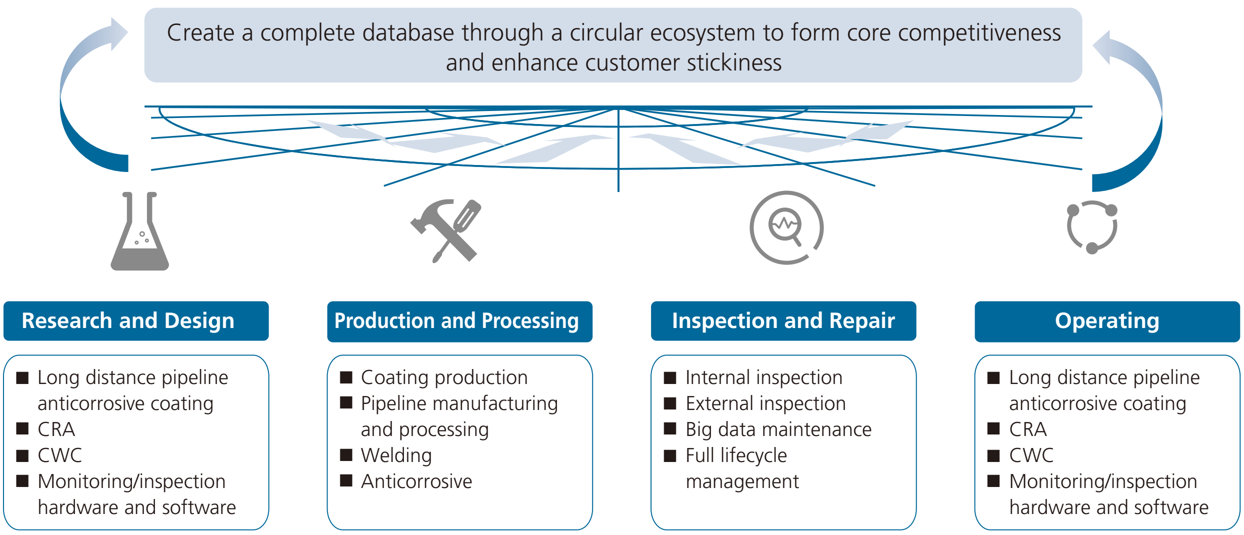
Oilfield Services

The quality of our services helps us to build a track record of serving high-quality customers. Our recently announced establishment of long-term relationship with PDO and BP demonstrated such ability again. These, along with using low cost but high performance Chinese-made equipment, helped us to constantly win market share from Western and Chinese competitors. The rigs under PDO contract have commenced operation during the 4th quarter in 2018. This will help us capture further opportunities with PDO, an important international customer in addition to Shell, with which we had a very long and successful relationship. Our first integrated service contract in Pakistan has achieved notable success and our technical service capabilities have been further improved on aspects including drilling fluid, cementing, directional well, casing, drill bit and completion. These allow us to continue to pursue an integrated service strategy and we are also exploring unconventional opportunities. Additionally, we will vigorously develop scientific and technological innovation and reduce costs and increase efficiency through automation, intelligence and informationisation. An example is that our application of remote information system has helped to dramatically improve efficiency.

Line Pipe Technology and Services

As a result of rising energy demand and environmental policy to shift from coal to natural gas, there are plans to develop a comprehensive natural gas and oil pipeline network in China. In the 13th and the 14th five-year plan in China, total investment in oil and gas pipeline will achieve RMB1,600 billion. State-owned companies are also expected to spin off pipeline businesses and separately list them on stock exchange. Langfang Pipeline Bureau, which is currently part of China National Petroleum Corporation, is the only other domestic company that is capable of conducting pipeline construction and related services. Therefore significant opportunities exist for non-stated owned companies. Leveraging on our years of experience in pipeline coating and inspection services and with the capabilities of producing own inspection equipment and analytical software, we aim to become a full life cycle integrated service provider that expands to other sectors including operation and big data maintenance. Having been significantly involved in the pipeline construction in the past many years, we believe building big data centre further around the pipeline network will provide us with a unique competitive advantage that improves customer stickiness.

Pipeline Integrated Full Lifecycle Management



In international markets, following obtaining the large CWC contract through integrated service offering with offshore engineering department, line pipe technology segment will continue to seek growth opportunities and we will work closely with steel company partners.

Revenue from our CRA business nearly tripled in 2018 and we are looking for opportunities to further expand this business. With our success in drill pipe and OCTG coating businesses in Russia, we will continue to persuade customers to replace expensive stainless steel pipes with our more economical CRA solutions.

Offshore Engineering Services

During the period, total working days in offshore engineering services significantly increased and offshore engineering services showed clear sign of recovery. Such recovery is expected to continue with tendering activities rising considerably during the year and our secured contracts for 2019. In China, the state-owned companies are looking to accelerate the development of both domestic and overseas markets, including those along the "One Belt and One Road", and we will be a stronger candidate to capture these opportunities. In Southeast Asia, we successfully completed various projects in 2018 and this further enhanced our reputation, helping us to build a track record in the region, and to enrich our overseas operation experience.

Our integrated business model of providing our clients product plus services has been proved by successfully winning a sizable CWC contract with China Petroleum Pipeline Engineering Co., Ltd, along with the offshore engineering service contract. Integrated business model reduces costs on interference and other matters, and creates a win-win situation for both customer and us. In addition, a stronger focus on execution and operational efficiency helps us to ensure individual project profitability and we believe we are beginning to see results.

BOARD OF DIRECTORS

The Board consists of ten Directors, including two Executive Directors, four Non-executive Directors, and four Independent Non-executive Directors. The table below sets forth the information regarding the Board:

Name	Age	Management Position
ZHANG Jun (張軍)	51	Chairman, Executive Director and Executive Chairman
WANG Tao (汪濤)	55	Executive Director and Chief Executive Officer
ZHANG Shuman (張姝嫚)	45	Non-executive Director
YUAN Pengbin (袁鵬斌)	60	Non-executive Director
LI Huaiqi (李懷奇)	69	Non-executive Director
YANG Qingli (楊慶理)	62	Non-executive Director
WANG Tao (王濤)	72	Independent Non-executive Director
WONG Man Chung Francis (黃文宗)	54	Independent Non-executive Director
LIU Haisheng (劉海勝)	72	Independent Non-executive Director
SHI Zheyan (施哲彥)	62	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 51, is an Executive Director, the chairman of the Board and executive chairman 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 an Executive Director on 2 December 2010. Mr. Zhang served as the chief executive officer of the Company from 2 December 2010 to 15 December 2017, responsible for the overall business operations and strategy formulation of the Company. He was re-designated to executive chairman of the Company on 15 December 2017, responsible for the overall strategic planning of the Group, new market development, and capital market related and investor relations management. Mr. Zhang serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited and the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited. He also serves as the director/senior management of other subsidiaries of the Group. Mr. Zhang has over 28 years of experience in the petroleum industry. From 2001 to 2007, he was engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. During his service as vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was a "Top 10 Influential Leader 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)", a title conferred by the National Energy Commission (國家能源委員會). Mr. Zhang is the elder brother of Ms. ZHANG Shuman, Non-executive Director of the Company. He is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

Mr. WANG Tao (汪濤), aged 55, is an Executive Director, chief executive officer and a member of the Nomination Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010 and was re-designated to an Executive Director on 29 March 2012. Mr. Wang served as the executive president of the Company from February 2012 to December 2017, and was re-designated to chief executive officer of the Company on 15 December 2017. He has also served as the director of Hilong Oil Service and Engineering Nigeria Limited since 2010. He also serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited, the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited, and the legal representative of Hilong Group of Companies Ltd.. Mr. Wang also serves as the director/senior management of other subsidiaries of the Group. Mr. Wang has over 30 years of management experience in the petroleum industry, and served as the vice general manager of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2006 to February 2012 and the director of Hilong Drilling & Supply FZE from December 2009 to May 2016. 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, responsible for on-site operation and business administration. From 1991 to 2001, Mr. Wang served as the 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 the 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.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 45, is a Non-executive Director 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 an Executive Director on 2 December 2010. She was re-designated to a Non-executive Director of the Company on 29 March 2012. Ms. Zhang served as the chief strategy officer of the Company from 2 December 2010 to 24 March 2017, primarily responsible for the financial affairs and strategic investment activities of the Group. She also served as the joint company secretary of the Company from 10 February 2011 to 24 March 2017. Ms. Zhang has over 22 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. 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 Chinese 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 younger sister of Mr. ZHANG Jun, Executive Director and chairman of the Board, executive chairman and substantial and controlling shareholder of the Company.

Mr. YUAN Pengbin (袁鵬斌), aged 60, is a Non-executive Director and a member of the Remuneration Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010. He has served as the chairman of the board of Hilong Pipeline Engineering Technology Co., Ltd. (海隆管道工程技術有限公司) (formerly known as Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司)) since 2005. He has over 35 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the president and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) (currently known as Hilong Pipeline Engineering Technology Co., Ltd. (海隆管道工程技術有限公司)). He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011, the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所) from 2006 to 2016, a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特（山西）石油管道塗層有限公司) from 2008 to 2012, the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2011 to 2017 and a secretary of the CPC party committee of Hilong Group of Companies from July 2013 to 2018. Although Mr. Yuan holds managerial positions in our subsidiaries, his role at the Company level is limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Institute (中國石油天然氣集團公司石油管材研究所) from 1983 to 2005 and 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, a 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 was 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 was elected as the leadership talent of Shanghai in 2011. He was also a member of the National Testing Machine Standards and Technology Committee (全國試驗機標準化技術委員會) and the Failure Analysis Committee of Chinese Mechanical Engineering Society (中國機械工程學會失效分析委員會). He was entitled to the special subsidy from the State Council of the People's Republic of China in 2012.

Mr. LI Huaiqi (李懷奇), aged 69, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 26 August 2011. Mr. Li started to provide commercial and business consultation for the Company in 2012. He is a Senior Economist. Mr. Li had been the Vice Chairman of the Listed Companies Association of Beijing. He was the Deputy Director-General of Advisory Center and Advisor of Expert Committee in China National Petroleum Corporation ("**CNPC**"). Mr. Li has over 40 years of experience in China's oil and natural gas industry. He worked at Daqing Oilfield, Liaohe Oilfield, Huabei Oilfield of CNPC and Nanhai East Corporation of China National Offshore Oil Corporation ("**CNOOC**"). In 1984, Mr. Li served as the Deputy Director-General of the President's Office of Nanhai East Corporation of CNOOC. From 1985 to 1990, he served as the 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 to October 2001, he served as the Deputy Director-General and Director-General of the International Cooperation Department of CNPC. From August 2001 to June 2009, he was appointed as the Secretary to the Board of PetroChina Company Limited. From June 2009 to April 2011, he was the Deputy Director-General of Advisory Center and Advisor of Project Committee in CNPC. From July 2011 to June 2017, he was the President of Chinese National Committee of World Petroleum Council. In 2008, he was listed among the "Top 100 Secretaries to the Board" of Chinese Listed Companies by Securities Times. In 2009, he received the awards of "Secretary to the Board of Golden Governance Social Responsibility Companies" by Shanghai Securities News and "Best Secretary to the Board Award" at the 9th "Top 100 Chinese Listed Companies Summit" hosted by Warton Economic Institute. He was also selected as the "Excellent Secretary to the Board" in the annual appraisal for 2008–2009 by the Shanghai Stock Exchange.

Dr. YANG Qingli (楊慶理), aged 62, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 21 August 2015. Dr. Yang is a senior engineer of professor level. He has over 36 years of experience in operation technologies, practices and management of petroleum engineering. Dr. Yang started his career in 1982 when he joined Changqing Oilfield as a technician of the drilling team. In 1984, he became the deputy manager of No. 2 Drilling Company of Changqing Petroleum Exploration Bureau (長慶石油勘探局第二鑽井公司) and was mainly in charge of technology, production and operation. In 1998, he served as the assistant to the director of Changqing Petroleum Exploration Bureau (the "**Bureau**") where he assisted in managing the Bureau's business operation. From 2000 to 2005, Dr. Yang served as the deputy director and Party Committee Secretary of the Bureau, and was in charge of production, safety management, human resources and stability management. During 2005 to 2008, he served as the director of marketing management department and the director of engineering technology and marketing department of China National Petroleum Corporation ("**CNPC**"), respectively. From 2008 to February 2015, Dr. Yang was the general manager of CNPC Technical Service Company (中國石油天然氣集團公司工程技術分公司) where he was directly in charge of the technology research and development as well as operation and business management of geophysical exploration, drilling, testing, logging, borehole operation and fracturing operated by CNPC. Dr. Yang graduated from East China Petroleum Institute (華東石油學院) (currently known as China University of Petroleum) with a Bachelor's Degree in Drilling in 1982, and obtained a Doctoral Degree in Oil-and-gas Well Engineering from China University of Petroleum in 2008.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 72, 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 an Independent Non-executive Director on 2 December 2010. Mr. Wang has over 48 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 the general manager, chairman and senior engineer of 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) (currently 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. WONG Man Chung Francis (黃文宗), aged 54, is an Independent Non-executive Director and the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He was appointed as an Independent Non-executive Director on 24 March 2017. He is currently an independent non-executive director of a number of companies listed on The Stock Exchange of Hong Kong Limited including China Oriental Group Company Limited (stock code: 581), Wai Kee Holdings Limited (stock code: 610), Integrated Waste Solutions Group Holdings Limited (stock code: 923), Greenheart Group Limited (stock code: 94), Digital China Holdings Limited (stock code: 861), GCL-Poly Energy Holdings Limited (stock code: 3800), China New Higher Education Group Limited (stock code: 2001) and Qeeka Home (Cayman) Inc. (stock code: 1739). He served as an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd. (stock code: 3768), a company listed on The Stock Exchange of Hong Kong Limited, from June 2016 to August 2018. He holds a Master's Degree in Management from Guangzhou Jinan University (廣州暨南大學) in the People's Republic of China. Mr. Wong is a fellow member of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants, a Certified Tax Advisor of the Taxation Institute of Hong Kong and a fellow member of the Society of Chinese Accountants and Auditors. He is a senior Certified Public Accountant (Practising) and has over 30 years of experience in auditing, taxation, internal control and governance, acquisition and financial consultancy, restructuring and liquidation, family trust and wealth management matters. Mr. Wong worked at KPMG, an international accounting firm, for over six years and Hong Kong Securities Clearing Company Limited for one year and ten months.

Mr. LIU Haisheng (劉海勝), aged 72, is an Independent Non-executive Director and a member of the Nomination Committee 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 entitled to the special allowance of the State Council. He is a party member of the Communist Party of China. Mr. Liu served as the office director of the Second Machinery Factory of China National Petroleum Corporation ("**CNPC**") Changqing Oil Field, the director of workshop, deputy factory director and factory director of the First Machinery Factory of Huabei Oil Field, the deputy director and director of Huabei Petroleum Administration Bureau, and the director of Planning Department and assistant to general manager of CNPC Group. He was 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 48 years of experience in the petroleum industry and is experienced in machinery manufacturing, exploration and exploitation of oil fields, as well as manufacturing and operation management of petrochemical enterprises. He has a high level of knowledge of macro economy. Mr. Liu graduated from Beijing Institute of Petroleum in 1970.

Mr. SHI Zheyan (施哲彥), aged 62, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive Director of the Company on 25 August 2017. Mr. Shi has nearly 44 years of work experience in the petroleum industry. From April 2014 to July 2016, he was the deputy chief economist and the head of the security department of China National Petroleum Corporation ("**CNPC**"). He served as the head of the security department in April 2007. From December 2000 to April 2007, he was the deputy director of the general office of CNPC. From July 1995 to December 2000, he served as the deputy general manager of China Petroleum Engineering & Construction Corporation. From March 1992 to July 1995, he was the secretary (director level) at the general office secretariat of CNPC. From October 1985 to March 1992, he worked at the CNPC Managers Training Institute of the Ministry of Petroleum Industry (石油工業部北京石油管理幹部學院), first as the deputy director of the general office of CPC Party Committee, and later as the director of the institute head's office and the head of the human resources department. From October 1979 to October 1985, he served as the officer and deputy head of the Department of Transport under East China Oil Transport Administration Bureau (華東輸油管理局運輸處). Starting his work at Liaohe Oil Field (遼河油田) in January 1975, he served as the confidential secretary of the CPC Party Committee's general office for the transportation division of Liaohe Oil Field from May 1978 to October 1979. Mr. Shi is a senior engineer. He holds a Bachelor's Degree in Business Administration from Southwest Petroleum University (西南石油學院).

SENIOR MANAGEMENT

For the biographies of Mr. ZHANG Jun and Mr. WANG Tao (汪濤), please refer to "– Board of Directors – Executive Directors". For the biography of Ms. ZHANG Shuman, please refer to "– Board of Directors – Non-executive Directors". Other members of the senior management team of the Company consist of the following:

Mr. DAI Daliang (代大良), aged 52, has been a director of Hilong Oil Service and Engineering Nigeria Limited since 2010, a director and the general manager of Hilong Oil Service and Engineering Co., Ltd. since 2008, and the executive president of the Company since December 2017. Mr. Dai has over 29 years of experience in the petroleum industry. Prior to joining the Group, from 1989 to 1995, Mr. Dai worked as an 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), responsible for the 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), responsible for international drilling cooperation. From 1996 to 2001, he worked for Greatwall Drilling Company Limited (中油長城鑽井有限公司) as its co-manager of the marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by Greatwall Drilling Company Limited. From 2001 to 2008, he served as the deputy general manager of Greatwall Drilling Company Limited. In 2008, he worked as an assistant to the 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. CHEN Yong (陳勇), aged 45, is the chief financial officer of the Company. After joining the Group in August 2008, Mr. Chen served in various positions in Hilong Group of Companies Ltd., including finance controller, audit supervisor, assistant to the president and internal control director. He was appointed as the chief financial officer of the Company in 2016. As the chief financial officer, Mr. Chen is responsible for overall financial and corporate finance management. Mr. Chen received a Master's Degree in Economics from Shanghai University of Finance and Economics (上海財經大學). He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom (FCCA), and has obtained the Legal Professional Qualification Certificate (法律職業資格證書) of the PRC.

Mr. XU Changxue (徐昌學), aged 54, has served as the chief engineer of Hilong Group of Companies Ltd. since April 2017, while acting as the head of Hilong Tubular Goods Research Institute. Mr. Xu is also the president of Shanghai Baoshan Federation of Science and Technology Enterprises (上海市寶山區科技企業聯合會). He has over three decades of experience in the petroleum industry. Prior to joining the Group, Mr. Xu worked for China Research Institute for Petroleum and Natural Gas Pipelines (中國石油天然氣管道科學研究院), as project director and branch director from 1987 to 1999. Subsequently, he served as a member of the senior management at various agencies before returning to China Research Institute for Petroleum and Natural Gas Pipelines as its head in 2010. Mr. Xu graduated from Southwest Petroleum University (西南石油學院) in 1987, majoring in applied chemistry. He obtained his Doctoral Degree from the same university in 2002, majoring in petroleum and natural gas engineering.

Mr. WANG Xianglei (王相磊), aged 49, joined the Group in August 2008. He is the vice president of Hilong Group of Companies Ltd. and the general manager of Hilong Oil Service and Engineering Co., Ltd. Mr. Wang has over 28 years of experience in the petroleum industry. He graduated from Southwest Petroleum University (西南石油學院) in 1990, majoring in drilling engineering. In 2007, he obtained a Master's Degree in Engineering from China University of Petroleum, Beijing, majoring in oil and gas field development. Prior to joining the Group, Mr. Wang worked for No.2 Drilling Company of Zhongyuan Petroleum Exploration Bureau and Greatwall Drilling Engineering Company Limited successively, from 1990 to 2008. In addition, Mr. Wang published five articles in core domestic publications, such as "Oil Drilling & Production Technology" (《石油鑽采工藝》), and served as an editor for such publications. He compiled "A Practicable Book on English for Overseas Oil Drilling" (《海外石油鑽井英語實務》), a book published by China Commerce and Trade Press.

Mr. CAO Yuhong (曹育紅), aged 49, has been 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 28 years of experience in the petroleum industry. Prior to joining the Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) and served as its deputy manager of the coating branch in 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 49, has been the chairman and general manager of Shanghai Boteng Welding Consumable 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 24 years of experience in the petroleum industry. Prior to joining the Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received a Bachelor's Degree in Engineering from Southwest Petroleum University in 1992 and a Master's Degree in Engineering in 1995. Mr. Gao became 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 55, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司). Mr. Xue has over 14 years of experience in the petroleum industry. Prior to joining the 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 the deputy manager of First Machinery Factory of CNPC Bohai Petroleum Equipment Manufacturing Company Limited (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 the "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 the 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 the "Outstanding Entrepreneur in Hebei Province"(河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

Mr. XIAO Long (肖龍), aged 57, has been the general manager of Hilong Marine Engineering (Hong Kong) Limited since January 2014. Mr. Xiao has over 34 years of experience in the petroleum industry. Prior to joining the Group, from 1985 to 2012, Mr. Xiao worked at China National Offshore Oil Corporation (中國海洋石油總公司) and its subsidiaries (collectively "**CNOOC**") in the fields of construction project management and production management for offshore oil and gas field development projects. He also obtained certificates of senior engineer and general manager for ultra-large-scale projects issued by CNOOC. During his employment with CNOOC, Mr. Xiao served various positions including engineering supervisor, platform department manager, deputy principal project manager and principal project manager, and successfully undertook the construction project management of a number of large-scale offshore projects for CNOOC. From 2012 to 2013, he served as the vice president of Rongsheng Offshore & Marine Pte. Ltd., Singapore (熔盛海事有限公司) and the general manager of Jiangsu Rongsheng Offshore Engineering Co., Ltd. (江蘇熔盛海洋工程有限公司), and was mainly engaged in project management for construction of offshore vessels and equipment. Mr. Xiao graduated from Guangdong Mechanics Institute (廣東機械學院), now known as Guangdong University of Technology (廣東工業大學), with a Bachelor's Degree in Engineering in 1985.

Mr. XU Jianmin (許建民), aged 55, has been the general manager of Hilong Energy Technology Co., Ltd. (海隆能源技術有限公司) since February 2017, and the vice president of Hilong Group of Companies Ltd since January 2018. Mr. Xu has over 37 years of experience in the petroleum industry. He graduated from Southwest Petroleum University (西南石油大學) in 2007, with a Master's Degree in Engineering. Prior to joining the Group, Mr. Xu worked at Huabei Oil Field of China National Petroleum Corporation ("**CNPC**") from 1981 to 1999, and acted as the general manager for African business of CNPC, the manager for Sudanese business and deputy chief engineer from 1999 to 2017.

The Board of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (the "**CG Code**") as 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 2018 is explained in this Corporate Governance Report.

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.

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 for securities transactions of Directors.

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

The Company has also established written guidelines (the "**Employees Written Guidelines**") on terms no less exacting than the Model Code 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 Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The Board currently comprises ten Directors, consisting of two Executive Directors, four Non-executive Directors and four Independent Non-executive Directors.

The composition of the Board is as follows:

Executive Directors:
Mr. Zhang Jun *(Chairman and Executive Chairman)*
Mr. Wang Tao (汪濤) *(Chief Executive Officer)*

Non-executive Directors:
Ms. Zhang Shuman
Mr. Yuan Pengbin
Mr. Li Huaiqi
Dr. Yang Qingli

Independent Non-executive Directors:
Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis
Mr. Liu Haisheng
Mr. Shi Zheyan

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 elder brother of Ms. Zhang Shuman.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the year, the Board held four meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Mr. Zhang Jun	4/4
Mr. Wang Tao (汪濤)	4/4
Ms. Zhang Shuman	3/4
Mr. Yuan Pengbin	4/4
Mr. Li Huaiqi	4/4
Dr. Yang Qingli	4/4
Mr. Wang Tao (王濤)	4/4
Mr. Wong Man Chung Francis	4/4
Mr. Liu Haisheng	4/4
Mr. Shi Zheyan	3/4

Apart from regular Board meetings, the Chairman also held a meeting with Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

Chairman and Chief Executive Officer

The roles of chairman and chief executive officer are separate and are being performed by two different individuals. Mr. Zhang Jun is the Chairman of the Company and Mr. Zhang provides leadership and is responsible for the effective functioning and leadership of the Board. Mr. Wang Tao (汪濤) is the Chief Executive Officer of the Company and focuses on the Company's business development and daily management and operations generally.

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 them 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 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 in accordance with the Articles of Association of the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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 have full and timely access to all the information of the Company and may seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board, for discharging their duties to the Company.

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 will receive comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

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

During the year, the Company organised training conducted by the legal advisers for all Directors. In addition, relevant reading materials including legal and regulatory updates, analysis of Environmental, Social and Governance Practice Disclosure and seminar handouts have been provided to the directors for their reference and studying.

The training records of the Directors for the year are summarised as follows:

Name of Directors	Type of Training [Note]
Executive Directors	
Mr. Zhang Jun	A & B
Mr. Wang Tao (汪濤)	A & B
Non-executive Directors	
Ms. Zhang Shuman	A & B
Mr. Yuan Pengbin	A & B
Mr. Li Huaiqi	A & B
Dr. Yang Qingli	A & B
Independent Non-executive Directors	
Mr. Wang Tao (王濤)	A & B
Mr. Wong Man Chung Francis	A & B
Mr. Liu Haisheng	A & B
Mr. Shi Zheyan	A & B

Note:
Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

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

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

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, overseeing the Company's financial reporting system, risk management system and internal control system, reviewing and monitoring effectiveness of internal audit function, making recommendation to the Board on the re-appointment, remuneration and terms of engagement of external auditor and monitoring the independence of external auditor, and reviewing arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, risk management and 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 2017, interim financial results and report in respect of the six months ended 30 June 2018, the unaudited consolidated financial statements for the nine months ended 30 September 2018, and significant issues on financial reporting and compliance procedures, risk management system and internal control system, relationship with auditors including the remuneration, terms of engagement, independence and re-appointment of auditors, non-exempt continuing connected transactions, arrangements for employees to raise concerns about possible improprieties, and to evaluate and assess the effectiveness of the Audit Committee and the adequacy of the terms of reference of the Audit Committee and consider whether any update or amendment is required.

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

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Wong Man Chung Francis	3/3
Mr. Wang Tao (王濤)	3/3
Ms. Zhang Shuman	3/3

Remuneration Committee

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

During the year, the Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the Directors and senior management, change in annual director's fee for a Non-executive Director and other related matters, and to evaluate and assess the effectiveness of the Remuneration Committee and the adequacy of the terms of reference of the Remuneration Committee and consider whether any update or amendment is required.

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Wang Tao (王濤)	2/2
Mr. Yuan Pengbin	2/2
Mr. Wong Man Chung Francis	2/2

Nomination Committee

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

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

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are 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 once to review the structure, size, composition and diversity of the Board, the "Board Diversity Policy" and consider whether any update or amendment is required, the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the Annual General Meeting, and to evaluate and assess the effectiveness of the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Wang Tao (王濤)	1/1
Mr. Wang Tao (汪濤)	1/1
Mr. Liu Haisheng	1/1

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

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

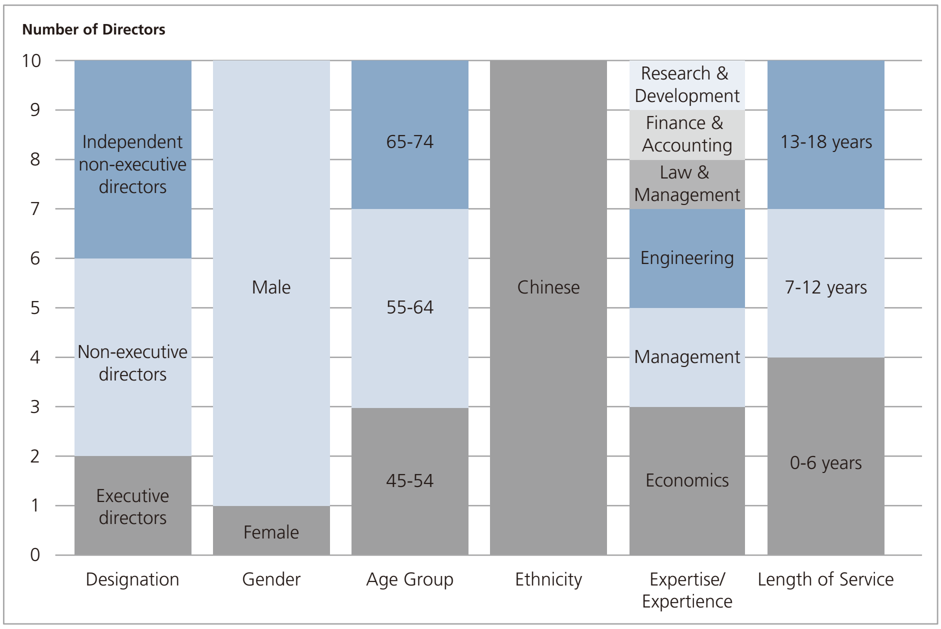
The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

The following chart shows the diversity profile of the Board as at December 31, 2018:



Nomination Policy

The Board has delegated its responsibilities and authority for selection and nomination of suitable candidate for appointment as Directors to the Nomination Committee of the Company.

The Board has adopted a Nomination Policy which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors and ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Policy sets out the criteria for the selection of a proposed candidate, including but not limited to the following:

- Reputation for integrity;
- Accomplishment and experience;
- Compliance with legal and regulatory requirements;
- Commitment in respect of available time and relevant interest; and
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Nomination Policy also sets out the criteria for evaluation and recommendation to the Board on the re-appointment of retiring Director(s) and the position(s) of the independent non-executive Directors, and the process and procedures for the nomination of Directors.

During the year, there was no change in the composition of the Board.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

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, contribution required from directors for performing their responsibilities, 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, the Company's compliance with the CG Code and disclosure in this Corporate Governance Report, and adopt a dividend policy of the Company.

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 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 65 to 68 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	3,700
Non-audit Services	
– Tax Services	977
– Other non-audit Services	728
Total	5,405

DIVIDEND POLICY

Subject to the Cayman Islands Companies Law and the Articles of Association of the Company, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. Declaration of dividend is subject to the discretion of the Board, taking into consideration of, among others, the following factors:

(i) results of operations;

(ii) cash flows and financial condition;

(iii) operation and capital requirements;

(iv) shareholders' interests;

(v) general business conditions and strategies;

(vi) taxation considerations;

(vii) contractual, statutory and regulatory restriction, if any; and

(viii) any other factors that the Board may deem relevant.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the profits of the Company, and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend. The Board may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment. At the time when dividend payment is made, the Company should consider reserving appropriate amount of reserve for present or future circumstances and make no declaration or payment thereon.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the risk management system and internal control system and reviewing their effectiveness on an ongoing basis. Such risk management system and internal control system are designed for managing instead of eliminating the risks of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee that set up by the Board is responsible for oversee and review the risk management system and internal control system of the Group, and monitor the design, implementation and monitoring functions on the risk management system and internal control system. Through the reporting and recommendation given by the internal audit team, the Audit Committee is responsible to review and comment the effectiveness of the risk management system and internal control system.

Management has reported and confirmed to the Audit Committee and the Board that the relevant systems have been effective for the year ended 31 December 2018 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management system and internal control system are effective.

The Company established the risk management system and internal control system according to the following principles, main features are shown as below:

(1) **Alignment to the Company's strategy:** The enterprise risk management is aligned to the Company's strategic targets;

(2) **Compliance:** The Company complies with relevant laws and regulations including the Listing Rules and relevant management systems;

(3) **Comprehensiveness:** Enterprise risk management involves all employees of the Company, and plays important roles in decision-making, management and execution in all areas of businesses;

(4) **Materiality:** The Company focuses on risk management of key businesses and high risk areas;

(5) **Cost effectiveness:** The Company optimises existing resources, and implements effective risk control procedures at a reasonable cost to enhance the efficiency and effectiveness of risk management system and internal control system.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment;

- Determines the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks; and

- Strengthens the monitoring and warning function of the system continuously based on the result of risk assessment.

Risk Monitoring and Reporting

- Establishes hierarchical supervisory responsibilities in the Group to ensure that risk monitoring is objective and effective;
- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;
- Revises the risk management strategies and internal control procedures in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Internal Audit Function

The Group has established an internal audit team, which assesses the adequacy and effectiveness of the risk management system and internal control system of the Group regularly, and reports to the Audit Committee and the Board on the audit results semi-annually and makes recommendations to the Board and the management to address the significant deficiencies of the system or problems that identified during the monitoring process.

Company Inside Information Management

Important inside message delivered through Company's mailbox and important electronic files were encrypted by password. In addition, the Company has set up "whistle-blowing" window to enhance control of inside information leakage.

COMPANY SECRETARY

Ms. Sham Ying Man is the company secretary of the Company. On 23 August 2018, Ms. Cheng Pik Yuk resigned as the company secretary and Ms. Sham Ying Man was appointed as the company secretary of the Company. The primary contact person at the Company are Ms. Zhang Shuman (Non-executive Director). Ms. Cheng Pik Yuk is a director of Tricor Services Limited ("**Tricor**") and Ms. Sham Ying Man is a manager of Tricor, a global professional service provider specialising in integrated business, corporate and investor services. The company secretary attended sufficient professional training as required under the Listing Rules for the year ended 31 December 2018 to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

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

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

Pursuant to the Articles of Association, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The purpose 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, Director)
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 attendance records of Directors at the annual general meeting held during the year are as follows:

Name of Directors	Attendance
Mr. Zhang Jun	1/1
Mr. Wang Tao (汪濤)	0/1
Ms. Zhang Shuman	1/1
Mr. Yuan Pengbin	0/1
Mr. Li Huaiqi	0/1
Dr. Yang Qingli	0/1
Mr. Wang Tao (王濤)	1/1
Mr. Wong Man Chung Francis	1/1
Mr. Liu Haisheng	0/1
Mr. Shi Zheyan	0/1

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

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

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

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 2018.

PRINCIPAL ACTIVITIES

The Group is an integrated oil field equipment and services provider with a focus on oilfield services, line pipe technology and services, oilfield equipment manufacturing and services and offshore engineering services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated financial statements of this annual report.

BUSINESS REVIEW

Overview and performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial key performance indicators is provided in the Management Discussion and Analysis section on pages 5 to 21 of this annual report. Such section constitutes part of this directors' report.

Environmental Policies and Performance

Our production processes primarily involve the manufacture and assembly of components and we do not operate in a highly-polluted industry. Our operations in the PRC are subject to a number of environmental laws and regulations including the Environmental Protection Law, Air Pollution Prevention Law, Water Pollution Prevention Law and its Implementing Regulations, Rules on the Administration concerning Environmental Protection of Construction Projects, Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects, etc. Pursuant to such laws and regulations, the discharge and disposal of contaminants, toxic and hazardous materials, including manufacturer's waste water, solid waste and waste gases, must comply with the applicable national and local standards. For the year ended 31 December 2018, the Group has been committed to complying with such applicable standards and the aforesaid environmental protection laws and regulations. Further, the Group did not incur any material cost in complying with such laws and regulations during the reporting period.

The Company places environmental protection as one of its top priorities. The Group has developed its own HSE management system with an objective that its operations do not cause any damage to the environment. The HSE policy has been strictly followed. In addition, several of the Group's subsidiaries have obtained certifications from Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) and ABS Quality Evaluations Inc. that their environmental management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of the ISO 14001 standards.

When providing services to our clients, Hilong not only complies with the applicable local environmental laws and regulations of places it operates, but also spares every effort to assist clients to reduce waste and waste treatment costs through optimizing its operation procedures and adopting new technologies even it is clients' responsibility to take charge of the waste produced (such as cuttings, waste mud, greenhouse gases emission) from their operation activities. Since its foundation in 2008, Hilong and its overseas subsidiaries have never received any complaints or fines from clients or local governments.

Our operations involve welding, handling of heavy machinery and components and hazardous chemicals. As a result, our employees may face the risk of various work-related injuries and accidents. We are subject to relevant rules and regulations on occupational health and safety such as the Safe Production Law, Law of the PRC on the Prevention and Treatment of Occupational Diseases, and Regulations on the Reporting, Investigation and Handling of Work Safety Accidents. We have established HSE and safety production policies and management system to ensure that all parts of our operations are in compliance with existing laws and regulations on occupational, safety and health. In addition, several subsidiaries of the Group have obtained certifications from American Bureau of Shipping (ABS) and Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) that their health and safety management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of certain international standards in relation to occupational, health and safety system such as the OHSAS 18001. Also, Hilong's safety management system of the pipe-laying and derrick vessel, Hilong 106, has been certified by ABS that it has complied with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention. For the year ended 31 December 2018, there had been no instance of major work related injuries or casualties which could have a material and adverse impact upon our business and operations.

The Group also implemented several measures in order to mitigate emissions produced by the Group's offices, such as reducing energy consumption by switching off lightings and electrical appliances and using of LED lamps, implementing double-sided printing and copying, setting up recycling bins, promoting the use of recycled paper.

Compliance with relevant Laws and Regulations

For the year ended 31 December 2018, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impact on the Group.

On environmental matters, occupational health and safety, the Group is subject to various laws and regulations in relation to environmental protection and workplace safety. As mentioned in the section headed "Environmental Policies and Performance" above, for the year ended 31 December 2018, the Group has been committed in complying with the applicable standards on discharge and disposal of contaminants, toxic and hazardous materials and the applicable environmental protection laws and regulations. Regarding production safety, the Group has policies and measures in place to prevent and eliminate occupational damages and ensure safe production environment including (i) designating staff to be responsible for managing production safety; (ii) providing relevant employees of appropriate safety classes and training to ensure they possess the required knowledge and management skills on production safety; (iii) erecting appropriate safety signage on dangerous equipment and installations; (iv) ensuring safety-related equipment comply with national or industry standards; and (v) formulating emergency response plan for occupational diseases and accidents.

Our business involves production of hazardous chemicals and production, usage, and inspection of special equipments such as pressure pipelines. We are required by the relevant laws and regulations such as Regulations on the Administration of Permits for the Production of Industrial Products and Regulation to obtain production permits from designated authorities before manufacturing such products and equipments. For the year ended 31 December 2018, the Group obtained necessary production permits from the relevant authorities before commencing the production of hazardous chemical and special equipments.

On employees' rights and interests, the Group has been committed in complying with the requirements of the Labour Law of the People's Republic of China and Law of People's Republic of China on Employment Contracts and other relevant overseas laws and regulations in relation to employees' rights in order to safeguard all employees' rights and interests. All full-time employees in the PRC are covered by a state-managed retirement benefit plan operation by the government of the PRC, and are entitled to an annual pension. The Group has made annual contributions to the state-managed retirement benefit as required under the relevant law. The Group has also made contributions to a defined contribution mandatory provident fund for all full-time employees in Hong Kong.

On taxation, the Group is subject to various taxation. Details of such taxes and compliance of the Group with such applicable tax laws are set out in note 24 to the consolidated financial statements of this annual report.

On corporate compliance, the Group has complied with the requirements under the Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Securities and Futures Ordinance (the "**SFO**") and the Corporate Governance Code (the "**CG Code**") for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**").

KEY RELATIONSHIPS WITH STAKEHOLDERS

The Company has always been actively fulfilling its social responsibility. The Group, with high quality products and services, is committed to creating good internal and external corporate relationships, and build a harmonious enterprise to take its responsibilities for customers, employees, shareholders and community.

Relationship with customers – Our customers primarily include a number of major PRC and international oil and gas companies. We have maintained well-established relationships with some of the largest PRC oil and gas companies by the provision of quality products, services and after-sales services. We have also maintained regular communications with these customers in order to understand their concerns, standards and industry trends. So far, our performance is widely recognized by the customers.

Relationship with employees – The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, trainings and guidelines are implemented to ensure that the working environment is healthy and safe. The Group provided regular occupational health and safety check-ups and trainings for its employees. Employees are regarded as the most important and valuable assets of the Group. The management met with the employee representatives regularly to understand the concerns of employees. The objectives of the Group's human resources management are to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate trainings and by providing opportunities within the Group for career advancement.

Relationship with shareholders – The Group recognizes the importance of protecting the interests of shareholders and having effective communications with them. The Group believes that the communication with its shareholders is a two – way process and thrives to ensure the quality and effectiveness of information disclosure, maintain regular dialogues with shareholders and listen carefully to the views and feedback it receives from its shareholders. This can be done through annual general meetings, extraordinary general meetings, corporate communications, interim and annual reports and results announcements.

Relationship with the community – The Group is committed to participating in community events and has worked with a number of charitable organizations with an aim to improve community well-being and social services. The Group believes that by encouraging the staff to participate in a wide range of charitable events, the concern for the community will be raised and boosted.

KEY RISKS AND UNCERTAINTIES

Decline in domestic and international oil and natural gas prices – The economic condition, market uncertainty and various factors that are beyond our control, including actions by major oil-producing countries and the prices and availability of other energy resources, may reduce the worldwide demand for oil and natural gas and result in a decline in the prices for oil and natural gas. Any decline in the prices of oil and natural gas, even for a short period of time, may reduce or curtail the expenditure by oil and gas companies in connection with exploration, drilling and production activities, which may result in lower sales volumes and prices for our drilling-related products and oil field services in the PRC and overseas, and may materially and adversely affect our business, financial condition and results of operations.

Failure to renew our certification as a supplier of our key customers – We are approved by our key customers such as CNPC and Sinopec as their suppliers. Such status is necessary for us to sell our products to the subsidiaries or branch oil fields of our major customers. However, such status may be suspended if the Group, amongst other things, delays delivery, has operational problems, is unable to provide after-sales services, or has unsatisfactory financial results. In the event that such status is suspended or terminated by our key customers, or that we are unable to renew such status, our business, financial condition and results of operations may be adversely affected.

Delay or rescheduling of oil and gas pipeline projects – We derive a significant portion of our revenue from sales of drill pipes, coating materials and related services. Planned and ongoing oil and gas pipeline projects can be delayed or rescheduled for a number of reasons including changes in business strategy of pipeline operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. Should any of the major projects of our clients to which we plan to supply our products and services be delayed or rescheduled, our business, financial condition and results of operations could be materially affected.

Failure to develop or adopt new production technologies – The oil and gas industry is competitive and the production technology underlying the industry is rapidly evolving. As customers' needs, related technologies and market trends are subject to change, the Group may not be able to correctly predict the trends in a timely manner or develop or adopt competitive technology on a timely basis, whether developed in-house or obtained through licence. Even if the Group has put in substantial investment of resources, time and capital to respond to and adapt to technological developments and changes in the oil and gas industry, there can be no assurance that the Group will succeed in adequately responding and adapting to such technological and industry developments. In the event that the Group is unable to respond successfully to technological and industry developments, its business, results of operations and competitiveness may be affected.

Certain risks inherent in overseas operations and risks associated with the international expansion of the Group's business – During the reporting period, a large portion of our revenue was derived from our oilfield services segment from the non-PRC markets. In addition, the Group generated a significant portion of drill pipes and related products revenue from sales to non-PRC markets. Further, as part of the business strategy, the Group intends to expand its business into other regions of the world. As a result, the Group may face certain risks inherent in its overseas operations and risks associated with its efforts to expand and maintain its business in international markets, including cultural differences and other difficulties in staffing and managing international operations; volatility in currency exchange rates; risks that foreign countries may impose withholding taxes; risks of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade; etc. If any of these risks materializes, or if the Group is unable to manage these risks effectively, the Group's ability to maintain or expand international business would be impaired, which may in turn affect the Group's business, financial condition, results of operations and prospects.

Prospects

The prospects of the Group is provided in the Chairman's Statement on pages 2 to 3 and in the Management Discussion and Analysis section on pages 5 to 21 of this annual report.

DIVIDEND

During the year ended 31 December 2018, a final dividend of HK1.0 cent per share, amounting to a total dividend of approximately HK$17.0 million (equivalent to approximately RMB14.7 million) for the year ended 31 December 2017, was paid to the shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK1.0 cent per share, amounting to approximately HK$17.0 million (equivalent to approximately RMB14.9 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2018, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company ("**AGM**"). Upon approval of the shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on 12 July 2019 to the shareholders of the Company whose names appear on the register of members of the Company as at 4 July 2019.

RESERVES

Details of movement in the reserves of the Company and the Group for the year ended 31 December 2018 are set out in notes 18 and 33 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2018, the reserves of the Company available for distribution to shareholders amounted to RMB1,191.7 million (2017: RMB1,191.5 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate revenue from sales of goods or rendering of services attributable to the Group's largest customer and five largest customers were 9.2% and 26.9% of the Group's total revenue from sales of goods or rendering of services respectively (2017: 7.3% and 29.3%). The aggregate purchases attributable to the Group's largest supplier and five largest suppliers were 6.6% and 28.3% of the Group's total purchases respectively during the year under review (2017: 4.8% and 16.1%).

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2018 are set out in note 14(d) to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

ISSUED SHARES

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

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 164 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 and up to the date of this report are as follows:

Executive Directors

Mr. Zhang Jun (張軍)
Mr. Wang Tao (汪濤)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Li Huaiqi (李懷奇)
Dr. Yang Qingli (楊慶理)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Liu Haisheng (劉海勝)
Mr. Shi Zheyan (施哲彥)

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.

Ms. Zhang Shuman, Mr. Li Huaiqi, Dr. Yang Qingli and Mr. Liu Haisheng will retire by rotation as Directors at the forthcoming AGM of the Company in accordance with Article 84 of the Articles and pursuant to Appendix 14 of the Listing Rules. Mr. Li Huaiqi and Mr. Liu Haisheng have informed the Company that they will not seeking re-election at the AGM and will therefore retire at the conclusion of the AGM. Ms. Zhang Shuman and Dr. Yang Qingli, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company under which he agreed to act as an Executive Director for a term of three years, which may be terminated by not less than one month's notice in writing served by either the Executive Director or the Company. Each of the Non-executive Directors and the Independent Non-executive Directors has signed an appointment letter with the Company for a term of three years which may be terminated by one month's notice (in the case of Non-executive Director) or not less than one month's notice (in the case of Independent Non-executive Director) served by either the Non-executive Director/Independent Non-executive Director or the Company. The appointments of Directors are subject to the provisions of retirement by rotation of Directors under the Articles.

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

EMOLUMENT POLICY

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

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

As at 31 December 2018, the total number of full-time employees of the Group was 3,405 (31 December 2017: 2,914). Employee costs excluding the Directors' remuneration totalled RMB558.9 million for the year of 2018. The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

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

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

Details of Directors' remuneration are set out in note 21(a) to the consolidated financial statements.

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2018 were within the following bands:

	Number of Senior Management
HK$1,000,001 to HK$1,500,000	5
HK$1,500,001 to HK$2,000,000	4
	9

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, as at 31 December 2018 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance in relation to the Group's business was entered into between the Company, or any one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2018.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles, the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2018 which is still in force.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as the Pre-IPO share option scheme and the Post-IPO share option scheme, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements that would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements subsisting at the end of the year are set out below. Other than the below share option schemes, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2018.

PRE-IPO SHARE OPTION SCHEME

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

(a) Purpose

The Pre-IPO Scheme is a share incentive scheme and is established to recognise 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 optimise their performance efficiency for the benefit of the Company; and

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

(b) Who may join

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

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

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

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

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

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

(c) Maximum number of Shares

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

(d) Subscription price

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

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

The grantees to whom options has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date of listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (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. Therefore, as at 31 December 2018, the remaining life of the Pre-IPO Scheme was approximately two years and three months.

(f) Expiry of option

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

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

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

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

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

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

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

Category/ name of grantees	Number of Shares					Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
	Outstanding as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2018				
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. 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	5,500,000	–	–	–	5,500,000				
Employees of the Group other than Directors									
In aggregate	24,064,300	–	–	–	24,064,300	2.60		1 January 2011	21 April 2012–31 December 2020
Total	29,564,300	–	–	–	29,564,300				

POST-IPO SHARE OPTION SCHEME

The Company adopted a Post-IPO share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. The remaining life of the Post-IPO Scheme is approximately four years and four months as at 31 December 2018. The following is a summary of the principal terms of the Post-IPO Scheme:

(a) Purpose

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

(b) Who may join

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

(c) Maximum number of shares

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

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

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

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

(e) Subscription price

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

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

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

(g) Expiry of option

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

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

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

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

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

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

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

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

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

(ix) the non-fulfillment 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.

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

	Number of Share Options									
Category/ name of grantees	Outstanding as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2018	Exercise price HK$	Closing Price immediately before the date of grant HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Employees of the Group other than Directors										
In aggregate	17,221,200	–	–	–	17,221,200	5.93	5.72	–	5 February 2014	5 February 2015–4 February 2024

DISCLOSURE OF INTERESTS

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

As at 31 December 2018, 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 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 and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	881,581,000(1)	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800(2)	
	Beneficial owner	760,000	
		994,641,800	58.631%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000(3)	
	Beneficial owner	692,000	
		24,992,000	1.473%
Mr. Yuan Pengbin	Beneficial owner	1,151,600	0.068%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Dr. Yang Qingli	Interest of spouse	77,000(4)	0.005%

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 and beneficiary of Mr. Zhang's trust as well as the sole director of Hilong Group Limited, he is deemed to be interested in these shares.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. As Mr. Zhang Jun is the founder and one of the beneficiaries 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 Ms. Gao Chunyi, spouse of Dr. Yang Qingli. Dr. Yang Qingli is therefore deemed to be interested in these shares.

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

Name of Director	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012–31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012–31 December 2020	0.04%
Mr. 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 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 and beneficiary 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 2018, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	881,581,000[(1)]	51.97%
SCTS Capital Pte Ltd.	Nominee	1,026,950,800[(1)(2)]	60.54%
Standard Chartered Trust (Singapore) Limited	Trustee	1,026,950,800[(1)(2)]	60.54%
Ms. Gao Xia	Interest of spouse	995,241,800[(3)]	58.67%

Notes:

(1) 881,581,000 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 and beneficiary of Mr. Zhang's trust.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. Mr. Zhang Jun is the founder and one of the beneficiaries 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.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2018 is contained in note 29 to the consolidated financial statements. The transactions between the Group and Mr. Zhang Jun (張軍), Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司), Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司) and Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司), respectively as described in note 29 fall under the definition of connected transactions under Chapter 14A of the Listing Rules, and also constitute related party transactions of the Group as disclosed on pages 154 to 155 of this annual report. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such connected transactions.

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

Continuing Connected Transactions

On 28 December 2016, Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) ("**Beijing Huashi Investments**"), as landlord, entered into three tenancy agreements with Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) ("**Hilong Oil Service**"), as tenant.

Pursuant to tenancy agreement no. 1 ("**Tenancy Agreement No. 1**"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent the same premises under the 2014–2016 Tenancy Agreements with a total leasing area of 1,850.32 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 1 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB610,644.15, RMB627,528.32 and RMB644,412.49 respectively.

Pursuant to tenancy agreement no. 2 ("**Tenancy Agreement No. 2**"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent additional office premises within the same building with a total leasing area of 476.99 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 2 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB151,903.43, RMB156,255.96 and RMB160,608.50 respectively.

Pursuant to tenancy agreement no. 3 ("**Tenancy Agreement No. 3**", and together with Tenancy Agreement No. 1, Tenancy Agreement No. 2, the "**Tenancy Agreements**"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent additional office premises within the same building with a total leasing area of 126.12 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 3 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB28,349.15, RMB29,499.99 and RMB30,650.84 respectively.

Beijing Huashi Investments as the landlord of Tenancy Agreement No. 2 and Tenancy Agreement No. 3, Hilong Oil Service as the original tenant of Tenancy Agreement No. 2 and Tenancy Agreement No. 3 and Hilong Energy Technology Co., Ltd. (海隆能源技術有限公司) ("**Hilong Energy Technology**"), a wholly-owned subsidiary of the Company, entered into two supplemental agreements dated 10 April 2017 (the "**Supplemental Agreements**"). Pursuant to the Supplemental Agreements, Hilong Oil Service agreed to transfer all its rights and obligations under Tenancy Agreement No. 2 and Tenancy Agreement No. 3 respectively to Hilong Energy Technology. All other terms and conditions under Tenancy Agreement No. 2 and Tenancy Agreement No. 3 remain the same. The Supplemental Agreements take retrospective effect as from 21 March 2017.

The monthly rental of each of the Tenancy Agreements was determined based on: (i) the historical rental amounts payable by Hilong Oil Service under the previous tenancy agreement for the two years ended 31 December 2015 and the nine months ended 30 September 2016; (ii) the prevailing market rents (which was obtainable as public information and after consulting the advice of several reputable local real estate agents for benchmarks of assessment of the monthly rental for the three years ending 31 December 2019); (iii) rental levels of similar properties in the vicinity of the leased premises (taking into account factors such as leased areas and floor levels); (iv) the conditions of the leased premises; (v) the location of the leased properties; and (vi) the availability of properties with similar sizes and in similar locations.

The annual caps for the leasing of the leased properties under the Tenancy Agreements for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB9,490,762, RMB9,759,412 and RMB10,028,062 respectively. The annual caps were determined having taken into account the amounts payable or estimated figures to be paid by the Group under the Tenancy Agreements for each of the three years ending 31 December 2019. As the highest applicable percentage ratio for the transactions contemplated under the Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the lease of the premises under the Tenancy Agreements is exempt from the independent shareholders' approval requirement but is subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules.

On 1 August 2017, Beijing Huashi Investments, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 1**") with Hilong Energy Technology, as tenant, under which Beijing Huashi Investments agreed to lease to Hilong Energy Technology office premises in Beijing with a gross floor area of 276.74 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal.

On 1 August 2017, Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司) ("**Longshi Investment**"), as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 2**") with Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) ("**Hilong Group of Companies**"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Group of Companies office premises in Shanghai with a gross floor area of 1,008 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal. As at the date of this annual report, no rent has been incurred under the new Tenancy Agreement 2 as Hilong Group of Companies has not occupied the office premises.

On 1 August 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 3**") with Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司) ("**Hilong Shine New Material**"), a former subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Shine New Material office premises in Shanghai with a gross floor area of 411.12 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal. Hilong Shine New Material ceased to be the Company's subsidiary after the disposal of 100% of the equity interest in Hilong Shine New Material pursuant to the Equity Transfer Agreement dated 25 September 2017. Therefore, this transaction no longer constitutes a continuing connected transaction of the Company.

On 1 August 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 4**") with Hilong Petroleum Offshore Engineering Limited (海隆石油海洋工程有限公司) ("**Hilong Petroleum Offshore Engineering**"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Petroleum Offshore Engineering the office premises in Shanghai with a gross floor area of 1,046.58 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal.

On 1 August, 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 5**") with Hilong Petroleum Offshore Engineering Services (Shanghai) Co., Ltd. (海隆石油海洋工程服務(上海)有限公司) ("**Hilong Petroleum Offshore Engineering Services**"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Petroleum Offshore Engineering Services office premises in Shanghai with a gross floor area of 603.16 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal (the New Tenancy Agreement 1, the New Tenancy Agreement 2, the New Tenancy Agreement 3, the New Tenancy Agreement 4 and the New Tenancy Agreement 5 collectively, the "**2017 Tenancy Agreements**").

The monthly rental of each of the 2017 Tenancy Agreements was determined on arm's length basis and on normal commercial terms taking into account: (i) the prevailing market rents with respect to each of the premises (which is obtainable as public information and after consulting several reputable local real estate agents); (ii) the conditions of the premises; (iii) the location of the premises; (iv) rental levels of similar properties in the vicinity of the premises (taking into account factors such as leased areas, floor levels and the age of the building); and (v) the availability of properties with similar sizes and in similar locations.

In view of the entering into of the 2017 Tenancy Agreements, the Directors expected that the original annual caps for the three years ending 31 December 2017, 2018 and 2019 in the amount of RMB9,490,762, RMB9,759,412 and RMB10,028,062 respectively under the Tenancy Agreements would not be sufficient and therefore revised the annual caps for the 5 months from 1 August 2017 to 31 December 2017, the two years ending 31 December 2018 and 2019 and the 7 months from 1 January 2020 to 31 July 2020 to RMB12,020,307, RMB16,093,983, RMB16,719,642 and RMB3,921,099, respectively ("**2017 Revised Annual Caps**").

On 27 June 2018, Hilong Group of Companies, a wholly-owned subsidiary of the Company, as landlord, entered into a tenancy agreement ("**the 2018 Tenancy Agreement**") with Hilong Shine New Material, a company owned by Mr. Zhang Jun as to 94.74%, as tenant in relation to the leasing of a factory premises for use as a manufacturing plant for a term commencing from 30 June 2018 to 31 July 2020, subject to renewal. The monthly rent for the 2018 Tenancy Agreement is RMB206,355.44 excluding management fees and utility fees. Accordingly, the maximum rent to be received by Hilong Group of Companies under the 2018 Tenancy Agreement is RMB5,176,412.

The monthly rental of the 2018 Tenancy Agreement was determined on arm's length basis and on normal commercial terms taking into account: (i) the prevailing market rents with respect to the premises to be leased (which is obtainable as public information and after consulting the advices of several reputable local real estate agents); (ii) the conditions of the premises to be leased; (iii) the location of the premises to be leased; (iv) rental levels of similar properties in the vicinity of the premises to be leased (taking into account factors such as leased areas and the age of the building); and (v) the availability of properties with similar sizes and in similar locations.

The terms of the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement were negotiated by the parties on an arm's length basis, taking into account prevailing market rentals, but in any event at leasing terms and rental rates no less favourable than those offered to the Group by independent third parties for the same or similar types of leased premises. Based on the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the continuing connected transactions contemplated under the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement are fair and reasonable, such continuing connected transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, and the entering into of such continuing connected transactions is in the interests of the Company and its shareholders as a whole. The Directors (including the independent non-executive Directors) are also of the view that the annual caps for the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement and the revised annual caps for the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement set out above are fair and reasonable and in the interests of the Company and its shareholders as a whole.

As at 31 December 2018, Mr. Zhang Jun (張軍), the controlling shareholder and a Director of the Company, holds 95.65% of the interest in Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司), which in turn holds 98.0% of the interest in Beijing Huashi Investments. Meanwhile, Mr. Zhang Jun also directly holds 1.0% of the interest in Beijing Huashi Investments. Further, Beijing Huashi Investments holds 50.0% of the interest in Longshi Investment. As at the same date, Mr. Zhang Jun also holds 94.74% of the equity interest in Hilong Shine New Material. As such, each of Beijing Huashi Investments, Longshi Investment and Hilong Shine New Material is an associate of Mr. Zhang Jun and thus a connected person of the Company under the Listing Rules. The leasing of the premises contemplated under each of the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement therefore constitute continuing connected transactions of the Company under Chapter 14A for the Listing Rules.

Given the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement are (i) similar in nature; (ii) entered into by the Group as tenants and counterparties who are associates of Mr. Zhang Jun as landlords; and (iii) transactions entered into within a 12-month period, the transactions contemplated under the Tenancy Agreements, 2017 New Tenancy Agreements and 2018 Tenancy Agreement would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

In view of the entering into of the 2018 Tenancy Agreement, the Directors expected that the 2017 Revised Annual Caps would not be sufficient and therefore revised the annual caps for each of the two years ending 31 December 2019 and the seven months from 1 January 2020 to 31 July 2020 to RMB17,349,076, RMB19,195,907, RMB5,366,152, respectively ("**2018 Revised Annual Caps**"). In arriving at the 2018 Revised Annual Caps, the Directors have taken into account the amounts payable by the Group and the amounts received by the Group under the 2017 Tenancy Agreements for each of the two years ending 31 December 2019 and the first seven months ending 31 July 2020. For more particulars in relation to the 2018 Tenancy Agreement and the transactions contemplated thereunder, please refer to the announcement of the Company dated 27 June 2018.

Given the highest applicable percentage ratio for the revised annual caps is more than 0.1% but less than 5%, the transactions under the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement are exempt from the independent shareholders' approval requirement but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

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

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

(ii) on normal commercial terms or better; and

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

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

ISSUANCE OF DEBT SECURITIES

On 18 January 2018, the Company issued US$60,000,000 7.25% senior notes due 2020 (the "**Additional 2020 Notes**") to be consolidated and to form a single series with the US$250,000,000 7.25% senior notes due 2020 the Company previously issued on 22 June 2017 (the "**2020 Notes**"). The offer price of the Additional 2020 Notes was 100.00% of the principal amount of the Additional 2020 Notes plus accrued interest from and including 22 December 2017 to (but excluding) 18 January 2018. The principal terms of the Additional 2020 Notes are the same as the terms of the 2020 Notes. The net proceeds of the Additional 2020 Notes amount to approximately US$59 million and will be used outside the PRC to refinance the Group's existing indebtedness, for working capital and general corporate purposes. The Additional 2020 Notes, guaranteed by certain non-PRC subsidiaries of the Company, will bear interest from 22 December 2017 at 7.25% per annum payable semi-annually in arrears on 22 June and 22 December of each year. The Additional 2020 Notes will mature on 22 June 2020. The Additional Notes are listed on the Stock Exchange on 19 January 2018. As at 31 December 2018, the net proceeds from the Additional 2020 Notes had been fully utilized for the purpose as mentioned above.

SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

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

The Controlling Shareholders have confirmed their compliance with the non-competition undertakings under the Deed throughout the year of 2018. 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 2018.

SUBSEQUENT EVENTS

On 22 March 2019, the Company passed a resolution of the Board of Directors and proposed to pay a final dividend of HK1.0 cent (equivalent to approximately RMB0.0088) per Share to the Shareholders of the Company. Details refer to Note 31 to the consolidated financial statements in this annual report.

AUDITOR

The financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, certified public accountants.

On behalf of the Board
Zhang Jun
Chairman

Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Hilong Holding Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 69 to 163, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter is identified in our audit as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Trade receivables impairment assessment	
Refer to Note 3.2 (Changes in accounting policies, HKFRS 9 – Financial Instruments), Note 4.1(b) (Financial risk factors – Credit risk), Note 5 (Critical accounting estimates and judgements) and Note 14(b) (Trade and other receivables) to the consolidated financial statements. The Group has significant businesses in a number of overseas countries and has many overseas customers, with certain businesses of the Group are exposed to global fluctuation of oil and gas prices. Provisions are made for expected credit losses at the initial stage of transactions. Management's significant judgment is required in assessing the expected credit losses. As at 31 December 2018, the gross carrying amount of trade receivables of the Group was approximately RMB1,963 million, whereby gross trade receivables past due more than one year as at 31 December 2018 amounted to approximately RMB321 million, and provision for expected credit losses of RMB155 million is recorded. Management estimated the level of expected credit losses, by assessing future cash flows of trade receivables including a probability determined by evaluating a range of possible outcomes based on twelve months rolling historical credit loss experience by customer ageing, tenure and applying to the receivables held at year end. The impact of forward looking economic factors both current and future are also considered in assessing the likelihood of recovery from customers and expected credit losses.	Our procedures in relation to impairment of provision for trade receivables included but not limited to below: • understanding and testing controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balance and determination of impairment provision; • confirming on a sample basis significant balances with customers; • assessing the appropriateness of the expected credit loss provisioning methodology throughout the Group; • obtaining management's assessment of the expected collectability (both amount and timing) of individually significant balances, especially those that were aged more than one year, and corroborating management's assessment against available evidences, including interviewing with sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to the existence of disputes with customers; • testing on a sample basis the reliability of the ageing report and accuracy of management's ageing analysis of receivable balances; • challenging the information used to determine the expected credit losses by considering cash collection performance against historical trends, the level of credit loss charges over time and the impact of economic factors on probability of default. We found management's assessments of the impairment provision of trade receivables are supported by the evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2019

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**3,261,017**	2,915,155
Lease prepayments	*8*	**83,110**	86,440
Intangible assets	*9*	**212,627**	183,406
Investments accounted for using equity method	*10*	**39,230**	55,629
Deferred income tax assets	*12*	**211,348**	180,815
Other long-term assets	*11*	**57,244**	21,460
		3,864,576	3,442,905
Current assets			
Inventories	*13*	**889,138**	848,700
Financial assets at fair value through profit or loss	*4,14(a)*	**–**	24,040
Trade and other receivables	*14(b)*	**2,084,897**	2,093,884
Prepayment	*15*	**176,959**	166,312
Current income tax recoverable		**37,910**	35,695
Restricted cash	*14(c)*	**184,479**	150,006
Cash and cash equivalents	*14(c)*	**661,738**	389,014
		4,035,121	3,707,651
Total assets		**7,899,697**	7,150,556
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*17*	**141,976**	141,976
Other reserves	*18*	**1,139,627**	1,136,669
Currency translation differences		**(92,848)**	(114,649)
Retained earnings		**2,120,614**	2,067,512
		3,309,369	3,231,508
Non-controlling interests		**212,641**	232,267
Total equity		**3,522,010**	3,463,775

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*14(d)*	**2,494,673**	1,905,440
Deferred income tax liabilities	*12*	**48,185**	42,902
Deferred revenue	*16*	**38,311**	21,783
		2,581,169	1,970,125
Current liabilities			
Trade and other payables	*3,14(e)*	**1,099,189**	1,005,499
Advances from customers		**–**	114,175
Contract liabilities	*3*	**71,465**	–
Current income tax liabilities		**41,117**	47,124
Borrowings	*14(d)*	**575,942**	544,012
Deferred revenue	*16*	**8,805**	5,846
		1,796,518	1,716,656
Total liabilities		**4,377,687**	3,686,781
Total equity and liabilities		**7,899,697**	7,150,556

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 69 to 163 were approved by the Board of Directors on 22 March 2019 and were signed on it's behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
		Year ended 31 December	
Revenue	*6*	**3,222,416**	2,669,347
Cost of sales	*19*	**(2,201,734)**	(1,823,746)
Gross profit		**1,020,682**	845,601
Selling and marketing expenses	*19*	**(124,227)**	(168,650)
Administrative expenses	*19*	**(405,810)**	(357,424)
Net impairment losses on financial assets	*4,14(b)*	**(12,418)**	–
Other gains/(losses) – net	*22*	**56,881**	(94,850)
Operating profit		**535,108**	224,677
Finance income	*23*	**9,105**	138,722
Finance costs	*23*	**(318,791)**	(196,397)
Finance costs – net		**(309,686)**	(57,675)
Share of profit of investments accounted for using equity method	*10*	**7,121**	4,611
Profit before income tax		**232,543**	171,613
Income tax expense	*24*	**(82,012)**	(45,913)
Profit for the year		**150,531**	125,700
Profit attributable to:			
Equity owners of the Company		**148,741**	119,150
Non-controlling interests		**1,790**	6,550
		150,531	125,700
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*25*	**0.0877**	0.0702
Diluted earnings per share	*25*	**0.0877**	0.0702

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit for the year	**150,531**	125,700
Other comprehensive income/(losses):		
Items that may be reclassified to profit or loss		
Currency translation differences	**21,801**	(129,926)
Other comprehensive income/(losses) for the year, net of tax	**21,801**	(129,926)
Total comprehensive income/(losses) for the year	**172,332**	(4,226)
Attributable to:		
Equity owners of the Company	**170,542**	(10,776)
Non-controlling interests	**1,790**	6,550
	172,332	(4,226)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		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 2017		141,976	1,133,443	1,963,797	15,277	3,254,493	237,385	3,491,878
Profit for the year		–	–	119,150	–	119,150	6,550	125,700
Other comprehensive losses		–	–	–	(129,926)	(129,926)	–	(129,926)
Total comprehensive income/ (losses) for the year		–	–	119,150	(129,926)	(10,776)	6,550	(4,226)
Appropriation to statutory reserve	*18(a)*	–	819	(819)	–	–	–	–
Transactions with owners								
2013 Share Option Scheme	*18(b)*	–	2,407	–	–	2,407	–	2,407
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(11,668)	(11,668)
Dividends in respect of 2016	*26*	–	–	(14,616)	–	(14,616)	–	(14,616)
As at 31 December 2017		141,976	1,136,669	2,067,512	(114,649)	3,231,508	232,267	3,463,775
As at 31 December 2017		141,976	1,136,669	2,067,512	(114,649)	3,231,508	232,267	3,463,775
Change in accounting policy – HKFRS 9	*3.1*	–	–	(79,013)	–	(79,013)	–	(79,013)
As at 1 January 2018		**141,976**	**1,136,669**	**1,988,499**	**(114,649)**	**3,152,495**	**232,267**	**3,384,762**
Profit for the year		**–**	**–**	**148,741**	**–**	**148,741**	**1,790**	**150,531**
Other comprehensive gains		**–**	**–**	**–**	**21,801**	**21,801**	**–**	**21,801**
Total comprehensive income for the year		**–**	**–**	**148,741**	**21,801**	**170,542**	**1,790**	**172,332**
Appropriation to statutory reserve	*18(a)*	**–**	**1,892**	**(1,892)**	**–**	**–**	**–**	**–**
Transactions with owners								
2013 Share Option Scheme	*18(b)*	**–**	**1,066**	**–**	**–**	**1,066**	**–**	**1,066**
Transactions with non-controlling interests	*22*	**–**	**–**	**–**	**–**	**–**	**(16,042)**	**(16,042)**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(5,374)**	**(5,374)**
Dividends in respect of 2017	*26*	**–**	**–**	**(14,734)**	**–**	**(14,734)**	**–**	**(14,734)**
As at 31 December 2018		**141,976**	**1,139,627**	**2,120,614**	**(92,848)**	**3,309,369**	**212,641**	**3,522,010**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

		Year ended 31 December	
	Note	**2018 RMB'000**	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	*27(a)*	**585,408**	314,400
Income tax paid		**(116,272)**	(58,430)
Net cash generated from operating activities		**469,136**	255,970
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment	*27(b)*	**11,790**	38,151
Dividends received		**6,413**	–
Purchases of property, plant and equipment		**(489,515)**	(233,215)
Purchases of intangible assets	*9*	**(33,043)**	(14,372)
Proceeds from disposal of subsidiaries of the Group	*22*	**7,909**	30,381
Net cash used in investing activities		**(496,446)**	(179,055)
Cash flows from/(used in) financing activities			
Proceeds from borrowings		**1,026,982**	2,721,722
Repayments of borrowings		**(527,571)**	(2,831,874)
Interest paid		**(205,028)**	(225,362)
Net cash (outflow)/inflow arising from security deposit for bank borrowings	*14(d)*	**(3,830)**	57,284
Net cash inflow/(outflow) arising from financial instruments		**25,515**	(24,210)
Dividends paid	*26*	**(19,481)**	(24,265)
Net cash generated from/(used in) financing activities		**296,587**	(326,705)
Net increase/(decrease) in cash and cash equivalents		**269,277**	(249,790)
Exchange gains/(losses) on cash and cash equivalents		**3,447**	(18,618)
Cash and cash equivalents at beginning of the year		**389,014**	657,422
Cash and cash equivalents at end of the year		**661,738**	389,014

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION OF THE GROUP

Hilong Holding Limited (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. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

The Company completed its global initial public offering and listed its shares 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 22 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

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 5.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Annual Improvements to HKFRS Standards 2014–2016 Cycle
- Classification and Measurement of Share-based Payment Transactions – Amendments to HKFRS 2
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group changed its accounting policies and made modified retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15. This is disclosed in Note 3. Other amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group.

- HKFRS 16 'Leases', effective for the accounting period beginning on or after 1 January 2019.
- Interpretation 23 'Uncertainty over Income Tax Treatment', effective for the accounting period beginning on or after 1 January 2019.
- Amendments to HKAS 28 'Long-term interests in Associates and Joint Ventures', effective for the accounting period beginning on or after 1 January 2019.
- Annual Improvements to HKFRS Standards 2015–2017 Cycle, effective for the accounting period beginning on or after 1 January 2019.
- Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', the effective date of this amendment has been deferred by IASB.
- Amendments to HKFRS 9 'Prepayment Features with Negative Compensation', effective for the accounting period beginning on or after 1 January 2019.
- Amendments to HKAS 19 'Plan Amendment, Curtailment or Settlement', effective for the accounting period beginning on or after 1 January 2019.
- Amendments to HKFRS 3 'Business Combinations', effective for the accounting period beginning on or after 1 January 2020.
- Amendments to conceptual Framework of IASB, effective for the accounting period beginning on or after 1 January 2020.
- HKFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2021.

The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 16 Lease was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases. The Group will adopt the practical expedient in HKFRS 16(C10) for leases which end within 12 months from the date of initial application as short-term leases and will recognise the lease cost on a straight-line basis as expenses in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations not yet adopted (continued)

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB80,381,000, see Note 28. Of these commitments, approximately RMB9,405,000 relates to short-term leases which will be recognised on a straight-line basis as expenses in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB60,269,000 on 1 January 2019, lease liabilities of RMB60,269,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

Operating cash flows will increase and financing cash flows will decrease by approximately RMB26,526,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Apart from aforementioned impact of HKFRS16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 fully 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 acquisition method is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire, the equity interests issued by the Group and 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 interests' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in 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 profit or loss. 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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies adopted by the Group.

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

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

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value becomes 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 or transferred to another category of equity as specific permitted by applicable HKFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

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.

Investments in associates and joint ventures are accounted for using the equity method of accounting.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control or joint control, generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.5 below), after initially being recognised at cost.

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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting (see Note 2.5 below), after initially being recognised at cost in the consolidated balance sheet.

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.

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

2.5 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in an equity-accounted investment equals or exceeds its interests in the entity (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 other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2.6 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group companies

The results and financial position of all the group entities (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 the date of that balance sheet;

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

- all resulting currency translation differences are recognised 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(d) Disposal of foreign operation and partial disposal

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

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

2.8 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 recognised 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 derecognised. 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 to their residual values over their estimated useful lives, as follows:

	Years
Freehold land	Nil
Buildings and facilities	5 to 40 years
Machinery and equipment	3 to 25 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

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 2.11).

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

2.9 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 2.11), if any.

2.10 Intangible assets

(a) Goodwill

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

Goodwill is not amortised but it is tested for impairment 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 of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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.

(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 their estimated useful lives of 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.

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Investments and other financial assets

(a) *Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income("**OCI**"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) – net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Investments and other financial assets (continued)

(c) *Measurement (continued)*

Debt instruments (continued)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses) – net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) – net and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) – net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) – net in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Investments and other financial assets (continued)

(d) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of the category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Under-performing	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 270 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are five years past due and there is no reasonable expectation of recovery	Asset is written off

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 4.1(b) Credit risk for further details.

(e) Accounting policies applied until 31 December 2017

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss ("**FVPL**"), 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

Classification (continued)

ii) Loans and receivables

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

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 consolidated 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 within "Other gains/(losses) – net" in the period in which they arise.

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Investments and other financial assets (continued)

(e) Accounting policies applied until 31 December 2017 (continued)

Impairment of financial assets (continued)

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.

2.13 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.

2.14 Trade receivables, bills receivable and other receivables

Trade receivables, bills receivable and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables, bills receivable 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 receivables, bills receivable and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.12 for a description of the Group's impairment policies.

2.15 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 equivalents.

2.16 Restricted cash

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

2.17 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Trade and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables 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 recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Borrowings

Borrowings are recognised 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 recognised 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 recognised 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.

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.

2.20 Borrowing costs

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.

Borrowing costs include interest expense, finance charges in respect of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Employee benefits

(a) Pension obligations

The People's Republic of China ("**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 the government of their respective country of residence.

(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.

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes 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 credited to share capital.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Share-based payments (continued)

(b) Share-based payment transactions among group entities

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 services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.24 Provisions

Provisions are recognised 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. Provisions are not recognised for future losses.

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 recognised 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 recognised as interest expense.

2.25 Revenue recognition

(a) Accounting policies applied from 1 January 2018

Accounting policies applied by the Group has been modified according to the adoption of HKFRS 15 Revenue from contract with customers from 1 January 2018 as follows:

(i) Revenue from sales of products

The Group manufactures and sells a range of products, including the production of oilfield equipment and coating materials for anti-corrosive and anti-friction purpose. Sales are recognised when the control of the products has transferred, being when the products are delivered to or inspected by customers according to terms of each contract and there is no unfulfilled obligation that could affect the customers to acceptance of the products.

(ii) Revenue from provision of pipeline coating services, oilfield services and offshore engineering services

The Group provides pipeline coating services and inspection services to domestic and overseas customers. The revenue is recognised overtime upon result is achieved as the Group's performance creates or enhances an asset that the customer controls.

The Group provides a range of oilfield services, including the provision of well drilling services and integrated comprehensive services to oil and gas producers. The Group charges the oil and gas producers at a fixed day rate which will be specific in each contract. Oilfield services revenue is recognised upon completion of each day when services are provided.

The offshore engineering division provides full-scale engineering design, simulation analysis, technical support and a variety of engineering construction services to oil and gas industry. Revenue from providing such services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual cost spent relative to the total expected cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition (continued)

(a) Accounting policies applied from 1 January 2018 (continued)

(iii) Overseas shipping services

The Group arranges overseas shipping services for the customer and revenue is recognised over time and based on the actual shipping service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual passages of time (days) relative to the total expected shipping days.

(iv) Rental income

Rental income from drill pipe leasing is recognised in the income statement on a straight-line basis over the term of the lease.

(b) Accounting policies applied until 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and services provided in the ordinary course of the Group's activities. Revenue is stated net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when 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 of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Revenue from sales of drill pipes, coating materials and related products is recognised 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.

(ii) Rendering of oilfield and pipe-laying services

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition (continued)

(b) Accounting policies applied until 31 December 2017 (continued)

(iii) Rendering of coating and engineering modelling assessment service

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

2.26 Interest income

Interest income from financial assets at FVPL is included in the 'Other gains/(losses) – net' on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI (2017 – available-for-sale securities, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 23 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.27 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVPL and available-for-sale financial assets). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

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

2.28 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.

2.29 Dividend distribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 Government grants

Grants from the government are recognised 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 recognised 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 property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.31 Research and development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other research and development expenditure that do not meet these criteria are recognised as an expense as incurred. Research and development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, except for i) interest paid of RMB205,028,000 (31 December 2017: RMB225,362,000) in the consolidated statement of cash flows has been reclassified from operating cash flows to financing cash flows to provide more relevant information and comparable with the market practice; and ii) the adoption of new and amended standards as set out below.

This note explains the impact of the adoption of HKFRS 9, "Financial Instruments" and HKFRS 15, "Revenue from Contracts with Customers" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

3.1 Impact on the financial statements

The following tables show the adjustments recognised for each individual line item in the opening balance sheet on 1 January 2018 as a result of changes in the Group's accounting policies. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail in Notes 3.2 and Note 3.3.

	31 December 2017 RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	1 January 2018 RMB'000
Consolidated balance sheet (extract)				
Deferred income tax assets	180,815	20,280	–	201,095
Contract assets	–	(897)	89,718	88,821
Trade and other receivables	2,093,884	(98,396)	(89,718)	1,905,770
Total assets	7,150,556	(79,013)	–	7,071,543
Contract liabilities	–	–	114,175	114,175
Trade and other payables	1,119,674	–	(114,175)	1,005,499
Total liabilities	3,686,781	–	–	3,686,781
Retained earnings	2,067,512	(79,013)	–	1,988,499

3.2 HKFRS 9, "Financial Instruments"

HKFRS 9, "Financial Instruments" was adopted by the Group using the modified retrospective approach. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the comparative information, but are recognised in the opening balance sheet on 1 January 2018.

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.2 HKFRS 9 – Financial Instruments (continued)

3.2.1 Impact of adoption

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. There was no impact on the reclassification of the financial instrument held by the Group on 1 January 2018.

The total impact on the Group's loss allowance as at 1 January 2018 is as follows:

	RMB'000
Closing loss allowance as at 31 December 2017 – HKAS 39	(44,164)
Increase in provision for trade receivables, bills receivable and contract assets	(99,293)
Opening loss allowance as at 1 January 2018 – HKFRS 9	(143,457)

The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

3.2.2 Accounting policies applied from 1 January 2018

Accounting policies applied by the Group from 1 January 2018 has been modified according to the adoption, please refer to Note 2.12 and Note 4.1(b) for detail information

3.3 HKFRS 15 – Revenue from Contracts with Customers

The Group adopted HKFRS 15 "Revenue from Contracts with Customers" by using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.3 HKFRS 15 – Revenue from Contracts with Customers (continued)

3.3.1 Impact on adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018) and at the reporting date (31 December 2018):

	Note	HKAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	HKFRS 15 carrying amount 1 January 2018 RMB'000
Consolidated balance sheet (extract)				
Contract assets	*(i)*	–	89,718	89,718
Trade and other receivables	*(i)*	2,093,884	(89,718)	2,004,166
Contract liabilities	*(ii)*	–	114,175	114,175
Advances from customers	*(ii)*	114,175	(114,175)	–

	Note	**HKAS 18 carrying amount 31 December 2018 RMB'000**	**Reclassification RMB'000**	**HKFRS 15 carrying amount 31 December 2018 RMB'000**
Contract assets	*(i)*	**–**	**–**	**–**
Trade and other receivables	*(i)*	**2,084,897**	**–**	**2,084,897**
Contract liabilities	*(ii)*	**–**	**71,465**	**71,465**
Advances from customers	*(ii)*	**71,465**	**(71,465)**	**–**

(i) Hilong offshore engineering services recognise revenue over time. The Group changed the presentation of the trade receivables to contract assets in the balance sheet to reflect the terminology of HKFRS 15.

(ii) The contract liabilities of the Group are advance for goods and service from customers. Revenue amounted to RMB71,465,000 has been recognised in the current year relates to carried – forward contract liabilities.

3 CHANGES IN ACCOUNTING POLICIES (continued)

3.3 HKFRS 15 – Revenue from Contracts with Customers (continued)

3.3.1 Impact on adoption (continued)

The Group is principally engaged in manufacturing and distribution of oil and gas drilling equipment and coating materials, and provision of coating, oilfield and offshore engineering services. The adoption of HKFRS 15 does not change revenue recognition policy of aforementioned activities.

The application of HKFRS 15 results in the identification of separate performance obligations in relation to shipping service derived from oversea trading sales of the Group which affects the timing of the recognition of revenue, from point in time to overtime. The identified effect of the revenue recognition, which is subject to the requirements of HKFRS 15, was immaterial to the retained earnings as at 1 January 2018.

The Group does not introduce any customer loyalty programme which is likely to be affected by the HKFRS 15.

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group applies the practical expedient in paragraph 121 of HKFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Except for the reclassifications of contract liabilities, there is no other line items have been significantly affected by the application of HKFRS 15 as compared to HKAS 18, which was in effect before the adoption of HKFRS 15.

3.3.2 Accounting policies applied from 1 January 2018

Accounting policies applied by the Group from 1 January 2018 has been modified according to the adoption, please refer to Note 2.25 for detail information.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally 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 future commercial transactions and recognised assets and liabilities and net investments in foreign operations.

As at 31 December 2018, 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 RMB37,376,000 higher/lower as a result of foreign exchange gains/losses (2017: RMB50,024,000 higher/lower as a result of foreign exchange gains/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 14(d).

As at 31 December 2018, 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 RMB351,000 (2017: RMB271,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, contractual cash flows of debt instruments carried at amortised cost, at fair value through comprehensive income (FVOCI) and at fair value through profit or loss (FVPL), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Risk management

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

The table below sets out the bank deposit balances with the major counterparties as at 31 December 2018 and 2017:

		As at 31 December	
Counterparty	Rating	**2018 RMB'000**	2017 RMB'000
HSBC*	AA–	**159,262**	99,927
China Construction Bank*	A	**158,221**	124,470
Bank of China*	A	**107,511**	34,055
Bank of Ningbo Co., Ltd.**	BAA2	**59,308**	29,493
Zenith Bank*	B	**40,637**	46,534
Banco Pichincha	NA	**40,341**	12,901
Bank of Shanghai Co., Ltd.**	BAA2	**35,143**	6
China Everbright Bank**	BAA2	**34,797**	14,969
China CITIC Bank Co., Ltd.*	BBB+	**32,182**	31,631
Habib Bank Limited*	B3	**24,661**	–
Emirates Islamic Bank**	A2	**21,847**	18,697
Shanghai Pudong Development Bank*	BBB	**19,565**	5,156
Societe Generale*	A	**12,503**	11,967
Bank of Jiangsu	NA	**12,075**	443
Faysal Bank	NA	**10,906**	30,135
Citi Bank*	A+	**3,384**	13,162
Hua Xia Bank Co., Ltd.*	BBB–	**276**	13,136

* 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.

(ii) Security

For some trade receivables the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables and bills receivable for sales of products and from the provision of services
- Contract assets relating to offshore engineering services, and
- Other financial assets carried at amortised cost

Trade receivables, bills receivable and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, bills receivable and contract assets.

To measure the expected credit losses, trade receivables, bills receivable and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and PPI of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Trade receivables, bills receivable and contract assets (continued)

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for all trade receivables, bills receivable and contract assets:

	Current	Past due within one year	Past due more than one year	Past due more than two years	Past due more than three years	Total
31 December 2018						
Average expected credit loss rate	1.01%	1.96%	7.82%	23.33%	75.10%	7.75%
Gross carrying amount						
– Trade receivables	982,050	659,789	112,735	63,181	145,142	1,962,897
– Bills receivable	48,913	–	–	–	–	48,913
	1,030,963	659,789	112,735	63,181	145,142	2,011,810
Loss allowance						
– Trade receivables	(9,908)	(12,911)	(8,816)	(14,740)	(109,006)	(155,381)
– Bills receivable	(494)	–	–	–	–	(494)
	(10,402)	(12,911)	(8,816)	(14,740)	(109,006)	(155,875)
Reversal of loss allowance						
– Contract assets	897	–	–	–	–	897
Loss allowance	(9,505)	(12,911)	(8,816)	(14,740)	(109,006)	(154,978)
1 January 2018						
Average expected credit loss rate	1.00%	1.94%	7.74%	23.10%	67.83%	7.43%
Gross carrying amount						
– Trade receivables	757,913	511,210	337,192	100,225	111,422	1,817,962
– Bills receivable	23,013	–	–	–	–	23,013
	780,926	511,210	337,192	100,225	111,422	1,840,975
Contract assets	89,718	–	–	–	–	89,718
	870,644	511,210	337,192	100,225	111,422	1,930,693
Loss allowance						
– Trade receivables	(7,579)	(9,917)	(26,099)	(23,152)	(75,583)	(142,330)
– Bills receivable	(230)	–	–	–	–	(230)
	(7,809)	(9,917)	(26,099)	(23,152)	(75,583)	(142,560)
Loss allowance						
– Contract assets	(897)	–	–	–	–	(897)
Loss allowance	(8,706)	(9,917)	(26,099)	(23,152)	(75,583)	(143,457)

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Trade receivables, bills receivable and contract assets (continued)

The closing loss allowances for trade receivables, bills receivable and contract assets as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Contract assets RMB'000	**Trade receivables and bills receivable** RMB'000
As at 31 December 2017 – calculated under HKAS 39	–	(44,164)
Amounts restated through opening retained earnings	(897)	(98,396)
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	(897)	(142,560)
Increase in financial assets loss allowance in profit of loss during the year	–	(12,418)
Unused amount reversed	897	–
As at 31 December 2018	–	(154,978)

Trade receivables, bills receivable and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than five years past due.

Impairment losses on trade receivables, bills receivable and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties of the debtor
- Probability that the debtor will enter bankruptcy or financial reorganisation, and
- Default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Cash and cash equivalents and restricted cash

Cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was not material.

Other financial assets at amortised cost

Other financial assets at amortised cost include receivables due from related parties and key management personnel and other receivables.

As at 1 January 2018 and as at 31 December 2018, the internal credit rating of other financial assets at amortised cost were performing as all of these financial assets are considered by management to have low credit risk, and thus the impairment provision recognised during the period was limited to 12 months expected losses and are not material.

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

The Group is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments, which is nil due to the settlement of the debt investment during the year (2017: RMB24,040,000).

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(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 expects to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions and issues of debt instruments or equity instruments.

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

Contractual maturities of financial liabilities	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 2018					
Non-derivatives					
Borrowings and interest payables	**773,073**	**2,464,101**	**141,824**	**19,163**	**3,398,161**
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	**953,837**	**–**	**–**	**–**	**953,837**
	1,726,910	**2,464,101**	**141,824**	**19,163**	**4,351,998**
As at 31 December 2017					
Non-derivatives					
Borrowings and interest payables	708,280	230,700	1,907,966	–	2,846,946
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	926,619	–	–	–	926,619
	1,634,899	230,700	1,907,966	–	3,773,565

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Capital 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, restricted cash and financial assets at FVPL. 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 30% and 40%.

The gearing ratios as at 31 December 2018 and 2017 are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total borrowings *(Note 14(d))*	**3,070,615**	2,449,452
Less: Cash and cash equivalents *(Note 14(c))*	**(661,738)**	(389,014)
Restricted cash *(Note 14(c))*	**(184,479)**	(150,006)
Financial assets at FVPL *(Note 14(a))*	**–**	(24,040)
Net debt	**2,224,398**	1,886,392
Total equity	**3,522,010**	3,463,775
Total capital	**5,746,408**	5,350,167
Gearing ratio	**38.71%**	35.26%

The slight increase in gearing ratio as at 31 December 2018 was mainly due to the increase in borrowings. The Group expects the gearing ratio would be between 30% and 40% in future years.

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

There was no financial assets and liabilities that were measured at fair value as at 31 December 2018.

The following table sets out the Group's financial assets and liabilities that were measured at fair value as at 31 December 2017:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2017				
Financial Assets				
Financial instruments-current				
Financial assets at FVPL	–	–	24,040	24,040

There were no transfers among levels during the years ended 31 December 2018 and 2017.

(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 foreign exchange forward contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 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 2017 and 2018.

	Financial assets at FVPL	
	2018	2017
	RMB'000	RMB'000
As at 1 January	**24,040**	–
Addition	**–**	24,260
Deduction	**(25,515)**	–
Gains recognised in profit or loss	**1,475**	(220)
As at 31 December	**–**	24,040
Total gains for the year included in profit or loss under "Finance cost – net"	**1,475**	(220)
Changes in unrealized losses for the year included in profit or loss at the end of the year	**–**	(220)

5 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) Expected credit loss for receivables

The impairment provision for trade receivables, bills receivable and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 2.12, Note 3.2 and Note 4.1(b)(iii). Changes in these assumptions and estimates could materially affect the result of the assessment and to may be necessary to make additional impairment charge to the consolidated income statement.

(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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) 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 recognises 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.

(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) Impairment assessment of goodwill

The Group tested annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.11. 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.

6 SEGMENT INFORMATION

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

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

The corporate overheads are not considered as business segment expenses in 2018 and 2017 as such expenses are general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

6 SEGMENT INFORMATION (continued)

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

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

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

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2018 and 2017 are set out as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**1,428,731**	1,316,232
Line pipe technology and services	**326,440**	329,536
Oilfield services	**1,134,413**	880,745
Offshore engineering services	**332,832**	142,834
	3,222,416	2,669,347

6 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 2018 is as follows:

	Year ended 31 December 2018				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,464,394	389,375	1,135,483	332,832	3,322,084
Inter-segment sales	(35,663)	(62,935)	(1,070)	–	(99,668)
Revenue from external customers	1,428,731	326,440	1,134,413	332,832	3,222,416
Timing of revenue recognition					
At a point in time	1,135,258	71,942	216,604	–	1,423,804
Over time	293,473	254,498	917,809	332,832	1,798,612
	1,428,731	326,440	1,134,413	332,832	3,222,416
Results					
Segment gross profit	478,288	110,752	416,723	14,919	1,020,682
Segment profit	280,531	46,236	278,834	5,926	611,527
Corporate overheads					(76,419)
Operating profit					535,108
Finance income					9,105
Finance costs					(318,791)
Share of profit of investments accounted for using equity method					7,121
Profit before income tax					232,543
Other information					
Depreciation of property, plant and equipment	82,156	21,695	104,163	63,997	272,011
Amortization of lease prepayments	1,196	904	–	–	2,100
Amortization of intangible assets	2,570	225	156	977	3,928
Capital expenditure	125,007	21,650	442,244	–	588,901

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 31 December 2018				
Business segment	**Oilfield equipment manufacturing and services RMB'000**	**Line pipe technology and services RMB'000**	**Oilfield services RMB'000**	**Offshore engineering services RMB'000**	**Total RMB'000**
Segment assets	2,944,139	736,757	2,754,301	1,425,270	7,860,467
Investments accounted for using equity method					39,230
Total assets					7,899,697
Total liabilities *(a)*	3,461,992	271,262	620,220	24,213	4,377,687

(a) As at 31 December 2018, the Senior Notes of USD310,000,000 (31 December 2017: USD250,000,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

6 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 2017 is as follows:

	Year ended 31 December 2017				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,384,078	382,700	880,745	142,834	2,790,357
Inter-segment sales	(67,846)	(53,164)	–	–	(121,010)
Revenue from external customers	1,316,232	329,536	880,745	142,834	2,669,347
Results					
Segment gross profit	423,813	80,407	311,784	29,597	845,601
Segment profit	85,928	14,166	180,866	1,452	282,412
Corporate overheads					(57,735)
Operating profit					224,677
Finance income					138,722
Finance costs					(196,397)
Share of profit of investments accounted for using equity method					4,611
Profit before income tax					171,613
Other information					
Depreciation of property, plant and equipment	81,446	16,844	110,084	57,361	265,735
Amortization of lease prepayments	1,223	904	–	–	2,127
Amortization of intangible assets	905	201	112	977	2,195
Capital expenditure	120,347	9,480	61,135	41,793	232,755

	As at 31 December 2017				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	3,066,416	489,163	2,190,411	1,348,937	7,094,927
Investments accounted for using equity method					55,629
Total assets					7,150,556
Total liabilities	3,198,553	140,982	305,390	41,856	3,686,781

6 SEGMENT INFORMATION (continued)

(c) Geographical segments

Although the Group's four segments are managed on a worldwide basis, they operate in six principal geographical areas of the world. In the People's Republic of China ("**PRC**"), the Group produces and sells a broad range of drill pipes and related products, provides coating materials and services. In Russia, Central Asia, East Europe, Middle East and North and South America, the Group sells drill pipes and related products. In Russia and North America, the Group provides coating services. In North America, the Group provides drill pipe operating lease services. In Central Asia, South Asia, Africa, South America, Middle East and East Europe, the Group provides drilling and related oilfield engineering services. In the PRC and Southeast Asia, the Group provides offshore 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	
	2018 RMB'000	2017 RMB'000
Russia, Central Asia and East Europe	**918,137**	908,926
The PRC	**873,600**	799,886
South Asia and Southeast Asia	**615,405**	427,483
North and South America	**399,308**	239,731
Africa	**279,867**	238,222
Middle East	**133,218**	53,916
Others	**2,881**	1,183
	3,222,416	2,669,347

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
The PRC	**1,797,890**	1,905,547
Middle East	**514,985**	106,093
North and South America	**412,852**	409,885
South Asia and Southeast Asia	**339,551**	270,128
Russia, Central Asia and East Europe	**250,747**	239,324
Africa	**240,729**	254,024
	3,556,754	3,185,001

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

The following table sets out the additions/(reduction) to non-current assets, excluding investments accounted for using equity method, deferred income tax assets and other long-term assets, by geographical areas in which the assets are located:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Middle East	**399,820**	(12,603)
South Asia and Southeast Asia	**85,248**	52,110
Russia, Central Asia and East Europe	**50,452**	81,836
North and South America	**38,946**	26,145
The PRC	**10,620**	82,492
Africa	**3,815**	2,775
	588,901	232,755

(d) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	Notes	**31 December 2018 RMB'000**	1 January 2018 RMB'000	31 December 2017 RMB'000
Current contract assets relating to offshore engineering contracts	*(i)*	**–**	89,718	–
Loss allowance	*4.1(b)*	**–**	(897)	–
Total contract assets		**–**	88,821	–
Non-current asset recognised for costs incurred to fulfil a contract	*(iii)*	**52,825**	19,084	19,084
Contract liabilities – Sales and service contracts	*(ii)*	**71,465**	114,175	–

(i) Significant changes in contract assets and liabilities

Contract assets are recorded for the provision of offshore engineering services and have decreased as the Group has provided fewer services ahead of the agreed payment schedules for offshore engineering contracts. The Group also recognised a loss allowance for contract assets following the adoption of HKFRS 9 as at 1 January 2018, see Note 4.1(b) for more information.

Contract liabilities are recorded for the payments received in advance of the performance under the contracts which are mainly from sales of goods and provision of services. The decrease of amount as at 31 December 2018 was due to the negotiation of less prepayments from the customers.

6 SEGMENT INFORMATION (continued)

(d) Assets and liabilities related to contracts with customers (continued)

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	31 December 2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	
Sales of goods	**58,538**
Provision of service	**1,344**
	59,882

(iii) Assets recognised from costs to fulfil a contract

In addition to the contract balances disclosed above, the Group has also recognised an asset in relation to mobilization costs to fulfil oilfield service contracts. This is presented within other long term assets in the balance sheet.

	2018 RMB'000	2017 RMB'000
Asset recognised from costs incurred to fulfil oilfield service contracts as at 31 December	**52,825**	19,084
Amortisation recognised as cost of providing services during the period	**10,041**	9,358

The Group recognised an asset in relation to mobilization costs incurred to fulfil oilfield service contract. The asset is amortised on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. Management expects the capitalised costs to be completely recovered and no impairment loss needed to record.

7 PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2017							
Cost	565,878	3,211,161	46,271	28,031	10,433	278,228	4,140,002
Accumulated depreciation	(129,978)	(811,803)	(30,195)	(22,081)	(6,201)	–	(1,000,258)
Net book amount	435,900	2,399,358	16,076	5,950	4,232	278,228	3,139,744
Year ended 31 December 2017							
Opening net book amount	435,900	2,399,358	16,076	5,950	4,232	278,228	3,139,744
Transferred from construction in progress	5,693	280,551	158	320	–	(286,722)	–
Additions	5,248	40,307	2,524	1,503	–	164,437	214,019
Disposals	(27)	(16,284)	(2,364)	(212)	–	–	(18,887)
Other deductions *(a)*	–	(6,685)	–	–	–	–	(6,685)
Depreciation *(Note 19)*	(23,495)	(234,518)	(4,330)	(1,599)	(1,793)	–	(265,735)
Currency translation differences	(3,171)	(128,335)	(155)	(69)	(22)	(15,549)	(147,301)
Closing net book amount	420,148	2,334,394	11,909	5,893	2,417	140,394	2,915,155
As at 31 December 2017							
Cost	572,360	3,260,690	41,574	26,884	10,433	140,394	4,052,335
Accumulated depreciation	(152,212)	(926,296)	(29,665)	(20,991)	(8,016)	–	(1,137,180)
Net book amount	420,148	2,334,394	11,909	5,893	2,417	140,394	2,915,155
Year ended 31 December 2018							
Opening net book amount	**420,148**	**2,334,394**	**11,909**	**5,893**	**2,417**	**140,394**	**2,915,155**
Transferred from construction in progress	**22**	**50,989**	**71**	**204**	**–**	**(51,286)**	**–**
Additions	**12,280**	**420,609**	**2,744**	**2,297**	**–**	**117,928**	**555,858**
Disposals	**(3,582)**	**(32,093)**	**(89)**	**(110)**	**–**	**–**	**(35,874)**
Depreciation *(Note 19)*	**(20,442)**	**(243,068)**	**(5,770)**	**(1,492)**	**(1,239)**	**–**	**(272,011)**
Currency translation differences	**(428)**	**100,324**	**(59)**	**(20)**	**20**	**(1,948)**	**97,889**
Closing net book amount	**407,998**	**2,631,155**	**8,806**	**6,772**	**1,198**	**205,088**	**3,261,017**
As at 31 December 2018							
Cost	**579,588**	**3,756,619**	**43,887**	**28,346**	**7,726**	**205,088**	**4,621,254**
Accumulated depreciation	**(171,590)**	**(1,125,464)**	**(35,081)**	**(21,574)**	**(6,528)**	**–**	**(1,360,237)**
Net book amount	**407,998**	**2,631,155**	**8,806**	**6,772**	**1,198**	**205,088**	**3,261,017**

7 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Other deductions mainly represent the transition from machinery and equipment to inventory due to the change of use purpose.

(b) Depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	**253,807**	244,212
Administrative expenses	**17,316**	19,767
Selling and marketing expenses	**888**	1,756
	272,011	265,735

8 LEASE PREPAYMENTS

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	
	2018	2017
	RMB'000	RMB'000
Outside of Hong Kong:		
– Lease between 10 to 50 years	**83,110**	86,440

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net book value	**86,440**	88,567
Disposals	**(1,230)**	–
Amortization charges *(Note 19)*	**(2,100)**	(2,127)
Closing net book value	**83,110**	86,440

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

9 INTANGIBLE ASSETS

	Goodwill (a) RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
As at 1 January 2017				
Cost	165,322	7,388	10,394	183,104
Accumulated amortization	–	(1,782)	(5,644)	(7,426)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	165,322	3,509	4,750	173,581
Year ended 31 December 2017				
Opening net book amount	165,322	3,509	4,750	173,581
Additions	–	16,741	1,995	18,736
Amortization charge *(Note 19)*	–	(696)	(1,499)	(2,195)
Currency translation differences	(6,619)	–	(97)	(6,716)
Closing net book amount	158,703	19,554	5,149	183,406
As at 31 December 2017				
Cost	158,703	24,129	12,165	194,997
Accumulated amortization	–	(2,478)	(7,016)	(9,494)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	158,703	19,554	5,149	183,406
Year ended 31 December 2018				
Opening net book amount	158,703	19,554	5,149	183,406
Additions	–	32,702	341	33,043
Amortization charge *(Note 19)*	–	(2,070)	(1,858)	(3,928)
Currency translation differences	(327)	396	37	106
Closing net book amount	158,376	50,582	3,669	212,627
As at 31 December 2018				
Cost	158,376	56,767	11,886	227,029
Accumulated amortization	–	(4,088)	(8,217)	(12,305)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	158,376	50,582	3,669	212,627

9 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill

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	
	2018 RMB'000	2017 RMB'000
Oilfield equipment manufacturing and services	**158,376**	158,703

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 3% growth rates.

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Gross margin	**33%**	32%
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 2018 (2017: nil).

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

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Administrative expenses	**3,167**	1,510
Cost of sales	**761**	685
	3,928	2,195

10 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Associates *(a)*	**39,230**	31,032
Joint venture *(b)*	**–**	24,597
	39,230	55,629

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Associates	**7,296**	4,610
Joint venture	**(175)**	1
	7,121	4,611

(a) Investments in associates

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of year	**31,032**	33,019
Share of results of associates	**7,296**	4,610
Elimination of unrealized profit	**4,368**	(3,110)
Dividends declared	**(3,466)**	(3,487)
End of year	**39,230**	31,032

10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(a) Investments in associates (continued)

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

Company name	Country/place of incorporation and operation and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principal activities
			2018	2017	
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	Shandong, the PRC, 12 February 2007	RMB20,000,000	**30%**	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	Liaoning, the PRC, 22 November 2010	RMB15,000,000	**30%**	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	Shaanxi, the PRC, 20 November 2004	RMB18,000,000	**22.95%**	22.95%	Coating service provision

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

	Assets RMB'000	**Liabilities** RMB'000	**Net assets** RMB'000	**Revenue** RMB'000	**Profit** RMB'000
As at and year ended 31 December 2018	**60,037**	**20,807**	**39,230**	**45,397**	**7,296**
As at and year ended 31 December 2017	85,581	54,549	31,032	58,482	4,610

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

10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

(b) Investment in a joint venture

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Beginning of year	**24,597**	24,596
Disposal of a joint venture *(Note 22)*	**(24,422)**	–
Share of results of a joint venture	**(175)**	1
End of year	**–**	24,597

The Group's interest in a joint venture and certain of its financial information attributable to the Group is as follows:

Company name	Country/place of incorporation and operation and date of incorporation	Paid-up capital	Attributable equity interest to the Group As at 31 December		Principal activities
			2018	2017	
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	Shaanxi, the PRC, 24 July 2013	RMB50,000,000	**0%**	49%	Coating service provision

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenue RMB'000	(Loss)/Profit RMB'000
As at and year ended 31 December 2018	**–**	**–**	**–**	**–**	**(175)**
As at and year ended 31 December 2017	25,748	1,151	24,597	–	1

On 27 December 2018, Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. was liquidated, see Note 22(b) for more details.

11 OTHER LONG-TERM ASSETS

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Contract mobilization cost to fulfill the contract *(Note 6(d))*	**52,825**	19,084
Long-term prepaid expenses	**4,419**	2,376
	57,244	21,460

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**54,809**	34,870
– to be recovered after more than 12 months	**156,539**	145,945
	211,348	180,815
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(48,185)**	(42,902)

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

Deferred income tax assets	Tax losses and tax credits carried forward	Impairment provision on assets	Accruals	Unrealized profit (a)	Allowance related to capitalized expenditure	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017	62,448	6,107	2,701	73,610	5,395	936	151,197
Credit/(charged) to the consolidated income statement *(Note 24)*	29,527	2,282	(281)	5,107	–	607	37,242
As at 31 December 2017	91,975	8,389	2,420	78,717	5,395	1,543	188,439
Adjustment on adoption of HKFRS9 *(Note 3.1)*	–	20,280	–	–	–	–	20,280
As at 1 January 2018	91,975	28,669	2,420	78,717	5,395	1,543	208,719
Credit/(charged) to the consolidated income statement *(Note 24)*	28,295	932	641	(7,828)	–	(56)	21,984
As at 31 December 2018	**120,270**	**29,601**	**3,061**	**70,889**	**5,395**	**1,487**	**230,703**

(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 recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. Part of the accumulated tax losses recognised as deferred tax assets amounted to RMB1,795,000, RMB6,102,000, RMB70,323,000, RMB100,675,000, RMB45,551,000, RMB4,813,000, RMB36,175,000 will expire in years ending 31 December of 2019, 2020, 2021, 2022, 2023, 2028, 2036 respectively. The remaining portion of the accumulated tax losses amounted to RMB283,535,000 can be carried forward indefinitely.

The Group did not recognise cumulative deferred income tax assets of RMB194,071,000 as at 31 December 2018 (31 December 2017: RMB161,825,000) in respect of the accumulated tax losses of certain subsidiaries.

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries RMB'000	Gains on remeasuring existing equity interests in certain associate and joint ventures on acquisition RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Accelerated tax depreciation expenses RMB'000	Total RMB'000
At 1 January 2017	(38,311)	(3,381)	(4,516)	(5,904)	(52,112)
Credit/(charged) to the consolidated income statement *(Note 24)*	2,216	–	49	(1,209)	1,056
Currency translation differences	–	–	311	219	530
At 31 December 2017	(36,095)	(3,381)	(4,156)	(6,894)	(50,526)
(Charged)/credit to the consolidated income statement *(Note 24)*	(1,219)	–	20	(15,706)	(16,905)
Currency translation differences	–	–	699	(808)	(109)
At 31 December 2018	**(37,314)**	**(3,381)**	**(3,437)**	**(23,408)**	**(67,540)**

13 INVENTORIES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Raw materials	**521,916**	416,792
Work in progress	**77,506**	74,968
Finished goods	**278,087**	346,505
Packing materials	**722**	877
Low value consumables	**10,907**	9,558
	889,138	848,700

The cost of inventories recognised as cost of sales amounted to approximately RMB1,289,662,000 for the year ended 31 December 2018 (2017: RMB1,069,930,000).

During the year ended 31 December 2018 and 2017, the Group has not reversed any inventory provision write-down brought forward from prior years. As at 31 December 2018, inventory provision relating to raw materials and finished goods amounted to RMB4,794,000 (31 December 2017: RMB4,794,000).

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		As at 31 December	
		2018	**2017**
		RMB'000	RMB'000
Financial assets			
Financial assets at FVPL	*(a)*	**–**	24,040
Financial assets at amortised cost			
– Trade and other receivables	*(b)*	**2,084,897**	2,093,884
– Cash and cash equivalents	*(c)*	**661,738**	389,014
– Restricted cash	*(c)*	**184,479**	150,006
		2,931,114	2,656,944
Financial liabilities			
Borrowings	*(d)*	**3,070,615**	2,449,452
Trade and other payables	*(e)*	**1,099,189**	1,005,499
		4,169,804	3,454,951

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-guaranteed floating interest financial product	**–**	24,040

The non-guaranteed floating income financial products, which was purchased by Shanghai Hilong Drill Pipe Co., Ltd., a subsidiary of the Group, was used to guarantee one of the bank borrowings in 2017 (Note 14(d)). The financial product and bank borrowings were both matured in 2018.

Financial assets at FVPL were presented within 'financing activities' as part of changes in working capital in the statement of cash flows.

Changes in fair values of FVPL were recorded in 'Finance costs – net' in the statement of profit or loss (Note 22).

The fair value of the product is based on its present value of future cash flow.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Trade and other receivables

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Bills receivable *(i)*	**48,913**	23,013
Trade receivables *(i)*	**1,962,897**	1,907,681
– Due from related parties *(Note 29(c))*	**4,039**	5,925
– Due from third parties	**1,958,858**	1,901,756
Less: provision for loss allowance of receivables *(ii)*	**(154,978)**	(44,164)
Trade receivables – net	**1,807,919**	1,863,517
Other receivables *(iii)*	**226,029**	202,317
Dividend receivables *(Note 29(c))*	**2,036**	5,037
Trade and other receivables – net	**2,084,897**	2,093,884

As at 31 December 2018 and 2017, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

As at 31 December 2018 and 2017, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
– USD	**1,102,254**	990,387
– RMB	**750,770**	806,109
– RUB	**166,476**	178,375
– AED	**23,561**	19,531
– EUR	**209**	1,733
– KZT	**12,869**	33,783
– NGN	**10,783**	21,370
– CAD	**10,755**	27,591
– PKR	**3,845**	11,731
– Other currencies	**3,375**	3,274
	2,084,897	2,093,884

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Trade and other receivables (continued)

(i) The ageing of bills receivable is within 180 days, which is within the credit terms granted to customers.

The ageing analysis of trade receivables based on invoice date, before provision for loss allowance, as at 31 December 2018 and 2017 was as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables, gross		
– Within 90 days	**1,015,844**	814,464
– Over 90 days and within 180 days	**216,567**	195,656
– Over 180 days and within 360 days	**377,399**	332,458
– Over 360 days and within 720 days	**144,381**	266,502
– Over 720 days	**208,706**	298,601
	1,962,897	1,907,681

(ii) Movements in provision for loss allowance of trade receivables and bills receivable are as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
As at 1 January *(Note 4.1)*	**(143,457)**	(33,511)
Provision for receivables loss allowance *(Note 19)*	**(12,418)**	(10,653)
Reversal of loss allowance	**897**	–
As at 31 December	**(154,978)**	(44,164)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Due from related parties *(Note 29(c))*	**133,866**	107,262
Deposits	**42,990**	32,738
Staff advances	**29,546**	28,010
Value added tax refund	**1,167**	2,579
Others	**18,460**	31,728
	226,029	202,317

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Cash and cash equivalents and restricted cash

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Cash at bank and in hand *(i)*	**846,217**	539,020
Less: Restricted cash *(ii)*	**(184,479)**	(150,006)
Cash and cash equivalents	**661,738**	389,014

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

(ii) Restricted cash represents guarantee deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements (Note 14(d)).

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Cash at bank and in hand are denominated in:		
– RMB	**490,370**	186,030
– USD	**252,241**	216,038
– RUB	**40,237**	77,612
– NGN	**25,757**	33,382
– PKR	**13,386**	4,559
– CAD	**10,955**	4,236
– KZT	**4,411**	1,769
– AED	**4,309**	10,524
– HKD	**2,253**	1,982
– Other currencies	**2,298**	2,888
	846,217	539,020
Restricted cash is denominated in:		
– RMB	**139,963**	100,839
– USD	**39,837**	47,607
– AED	**3,269**	45
– RUB	**1,352**	1,515
– OMR	**58**	–
	184,479	150,006

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.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Non-current		
Bank borrowings – secured *(i)*	**480,527**	355,261
Bank borrowings – unsecured	**16,780**	660
Senior Notes – unsecured *(ii)*	**2,106,656**	1,602,591
Less: Current portion of non-current borrowings – secured *(i)*	**(109,290)**	(53,072)
	2,494,673	1,905,440
Current		
Bank borrowings – secured *(i)*	**97,185**	149,575
Bank borrowings – unsecured	**369,467**	341,365
Current portion of non-current borrowings – secured *(i)*	**109,290**	53,072
	575,942	544,012
	3,070,615	2,449,452

(i) Bank borrowings – secured

The bank borrowings of RMB217,185,160 (31 December 2017: RMB108,665,000) were secured by bank deposits of RMB49,590,000 (Note 14(c)) of the Group as at 31 December 2018 (31 December 2017: RMB45,760,000).

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounting to RMB400,000,000. These loan principals were secured by the Controlling Shareholder and his spouse. As at 31 December 2018, RMB385,000,000 were drawn down, out of which RMB77,000,000 had been repaid during 2017 and 2018, the remaining principals are fully repayable from 2019 to 2020.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 31 December 2018, USD29,000,000 were drawn down. The principals will be fully repayable from 2019 to 2024.

As at 31 December 2017, there were bank borrowings of USD3,200,000 borrowed by Shanghai Hilong Drill Pipe Co., Ltd., a subsidiary of the Group, which was secured by a non-guaranteed floating income financial products. As at 31 December 2018, the Group had fully repaid the loan.

As at 31 December 2017, there were bank borrowings of RMB20,000,000 borrowed by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., a subsidiary of the Group, which was secured by the non-controlling interests of the Group. As at 31 December 2018, the Group had fully repaid the loan.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings (continued)

(ii) Senior Notes

In June 2017, the Company issued Senior Notes amounting to USD250,000,000 at a discounted price 99.339% (the "**Original Notes**"). The Senior Notes, guaranteed by certain subsidiaries of the Group, will bear interest from 22 June 2017 at 7.25% per annum payable semi-annually in arrears on 22 June and 22 December of each year, beginning from 22 December 2017. The Senior Notes were listed on the Stock Exchange of Hong Kong Limited on 23 June 2017 and will mature on 22 June 2020.

On 18 January 2018, the Company issued a Senior Notes amounting to USD60,000,000 in addition to the Original Notes (the "**Additional Notes**"). The Additional Notes, guaranteed by certain subsidiaries of the Group, bear interest at 7.25% per annum payable semi-annually and will mature on 22 June 2020.

Borrowings – currencies

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bank borrowings:		
– USD	**2,351,634**	1,705,827
– HKD	**67,467**	64,365
– EUR	**47,084**	–
– RMB	**604,430**	679,260
	3,070,615	2,449,452

Borrowings – interest rates and maturity dates

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

	6 months or less	**Between 6 and 12 months**	**Between 1 and 5 years**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018	**300,269**	**271,768**	**2,498,578**	**3,070,615**
As at 31 December 2017	370,684	173,745	1,905,023	2,449,452

The maturity of borrowings is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
On demand or within 1 year	**575,942**	544,012
Between 1 and 2 years	**2,353,164**	92,387
Between 2 and 5 years	**123,272**	1,813,053
Over 5 years	**18,237**	–
	3,070,615	2,449,452

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings (continued)

Borrowings – interest rates and maturity dates (continued)

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Borrowings – current		
– RMB	**4.81%**	4.76%
– HKD	**3.11%**	5.61%
– EUR	**1.38%**	–
– USD	**3.44%**	5.98%
Borrowings – non-current		
– RMB	**6.24%**	5.89%
– USD	**8.10%**	8.19%

Borrowings – Fair values

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Material differences are identified only for the following borrowings:

	As at 31 December 2018	
	Carrying amount RMB'000	**Fair value RMB'000**
Senior Notes	**2,106,656**	**1,891,642**

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
USD facilities	**164,374**	126,459
RMB facilities	**192,307**	198,616
	356,681	325,075

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(e) Trade and other payables

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bills payable	**206,909**	165,683
Trade payables:	**674,093**	675,919
– Due to third parties	**658,109**	645,654
– Due to related parties *(Note 29(c))*	**15,984**	30,265
Other payables:	**53,244**	70,836
– Due to related parties *(Note 29(c)) (i)*	**19,031**	36,021
– Due to third parties *(ii)*	**34,213**	34,815
Staff salaries and welfare payables	**44,168**	32,843
Interest payables	**7,026**	5,362
Accrued taxes other than income tax	**94,158**	40,675
Dividends payable	**4,109**	3,482
Other liabilities	**15,482**	10,699
	1,099,189	1,005,499

(i) As at 31 December 2018 and 2017, there was an unpaid cash consideration amounted to RMB938,000 in relation to the acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd, which was completed on 8 May 2014 (Note 29(c)).

(ii) As at 31 December 2018 and 2017, there was an unpaid cash consideration due to Kamelon LLC amounted to USD200,000 in relation to the acquisition of Russia Coating Business which was completed on 1 December 2014.

As at 31 December 2018 and 2017, all trade and other payables of the Group were non-interest bearing, and their fair values, 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.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(e) Trade and other payables (continued)

(ii) (continued)

As at 31 December 2018 and 2017, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
– RMB	**945,746**	850,744
– USD	**46,522**	85,468
– RUB	**19,366**	9,159
– OMR	**24,522**	–
– AED	**22,950**	8,648
– PKR	**13,921**	28,647
– ETB	**12,872**	8,660
– NGN	**3,921**	1,346
– CAD	**2,983**	1,249
– ALL	**2,497**	3,054
– KZT	**2,485**	7,140
– EUR	**961**	1,083
– MYR	**443**	93
– SGD	**–**	10
– HKD	**–**	198
	1,099,189	1,005,499

(iii) The ageing analysis of the trade payables based on invoice date, including amounts due to related parties which were trading related in nature, was as follows:

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Trade payables, gross		
– Within 90 days	**458,889**	474,009
– Over 90 days and within 180 days	**170,886**	176,756
– Over 180 days and within 360 days	**28,656**	11,500
– Over 360 days and within 720 days	**12,812**	8,978
– Over 720 days	**2,850**	4,676
	674,093	675,919

15 PREPAYMENT

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Prepayment	**176,959**	166,312

16 DEFERRED REVENUE

Deferred revenue represents mobilization fees and government grants relating to certain research projects and production lines. Mobilization fees mainly represent the mobilization cost compensated by corresponding clients which should be deferred and recognised in the consolidated income statement over the service period afterwards. Government grants relating to research projects are recognised 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 lines are deferred and recognised in the consolidated income statement on a straight-line basis over the expected useful lives of the related production lines.

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Non-current		
– Mobilization fees	**23,776**	5,817
– Government grants	**14,535**	15,966
	38,311	21,783
Current		
– Mobilization fees	**8,691**	5,772
– Government grants	**114**	74
	8,805	5,846
	47,116	27,629

17 ORDINARY SHARES

	Number of ordinary shares	**Nominal value of ordinary shares** (In HKD)	**Equivalent nominal value of ordinary shares** (In RMB)
As at 31 December 2017 and 31 December 2018	1,696,438,600	169,643,860	141,975,506

18 OTHER RESERVES

	Statutory reserve RMB'000	Merger reserve RMB'000	Share options reserve RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Total RMB'000
As at 1 January 2017	100,653	(141,929)	45,322	1,172,248	702	(43,553)	1,133,443
Appropriation to statutory reserve *(a)*	819	–	–	–	–	–	819
2013 Share Option Scheme *(b)*	–	–	2,407	–	–	–	2,407
As at 31 December 2017	101,472	(141,929)	47,729	1,172,248	702	(43,553)	1,136,669
As at 1 January 2018	**101,472**	**(141,929)**	**47,729**	**1,172,248**	**702**	**(43,553)**	**1,136,669**
Appropriation to statutory reserve *(a)*	**1,892**	**–**	**–**	**–**	**–**	**–**	**1,892**
2013 Share Option Scheme *(b)*	**–**	**–**	**1,066**	**–**	**–**	**–**	**1,066**
As at 31 December 2018	**103,364**	**(141,929)**	**48,795**	**1,172,248**	**702**	**(43,553)**	**1,139,627**

(a) Statutory reserve

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

For the year ended 31 December 2018, RMB1,892,000 (2017: RMB819,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

(b) Share options reserve

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

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

The fair value of the contributions received in exchange for the grant of the options is recognised as an expense on a straight-line basis over vesting period of each tranche. These share options are measured at fair value at 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 recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(i) Pre-IPO Share Option Plan

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

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2018	2017
At 1 January	2.60	**29,564,300**	29,174,300
Forfeited	2.60	**–**	–
Current year change	2.60	**–**	390,000
At 31 December	2.60	**29,564,300**	29,564,300

The share options outstanding (expiry date: 31 December 2020) as at 31 December 2018 and 2017 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2018	2017
21 April 2012	2.60	**2,176,900**	2,176,900
21 April 2013	2.60	**6,426,800**	6,426,800
21 April 2014	2.60	**6,973,000**	6,973,000
21 April 2015	2.60	**6,985,800**	6,985,800
21 April 2016	2.60	**7,001,800**	7,001,800
		29,564,300	29,564,300

All of the options were exercisable as at 31 December 2018 and 2017. No options were exercised in 2018 and 2017.

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

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

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

The significant inputs into the model were as follows:

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

(ii) 2013 Share Option Scheme

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

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December 2018	2017
Beginning of the period	5.93	**17,221,200**	17,221,200
Forfeited	5.93	**–**	–
End of the period	5.93	**17,221,200**	17,221,200

The share options outstanding (expiry date: 4 February 2024) as at 31 December 2018 and 2017 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding options Year ended 31 December 2018	2017
5 February 2015	5.93	**3,444,240**	3,444,240
5 February 2016	5.93	**3,444,240**	3,444,240
5 February 2017	5.93	**3,444,240**	3,444,240
5 February 2018	5.93	**3,444,240**	3,444,240
5 February 2019	5.93	**3,444,240**	3,444,240
		17,221,200	17,221,200

Out of the 17,221,200 outstanding options (2017: 17,221,200 outstanding options), 13,776,960 options (2017: 10,332,720 options) were exercisable.

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

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

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

The significant inputs into the model were as follows:

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

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

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Selling and marketing expenses	**873**	1,944
Administrative expenses	**190**	442
Cost of sales	**3**	21
	1,066	2,407

19 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress *(Note 13)*	**65,880**	(51,320)
Raw materials and consumables used *(Note 13)*	**1,223,782**	1,121,250
Employee benefit expenses *(Note 20)*	**565,034**	490,388
Depreciation *(Note 7)*	**272,011**	265,735
Transportation expenses	**136,229**	132,320
Utilities and electricity	**122,110**	70,404
Operating lease payments	**61,622**	49,018
Travelling and communication expenses	**49,967**	38,848
Consulting expenses	**53,390**	46,861
Entertainment expenses	**36,057**	33,970
Marketing and promotion expenses	**31,911**	19,901
Research and development expenses	**29,229**	40,521
Taxes and levies	**16,908**	16,830
Sales commission	**14,319**	21,320
Amortization of long term prepaid expenses	**12,917**	9,743
Provision for loss allowance of receivables *(Note 14(b))*	**12,418**	10,653
Subcontract cost	**12,368**	9,001
Bank charges	**7,550**	7,895
Auditor's remuneration	**5,405**	4,801
– Audit services	**3,700**	3,500
– Non-audit services	**1,705**	1,301
Amortization of intangible assets *(Note 9)*	**3,928**	2,195
Amortization of lease prepayments *(Note 8)*	**2,100**	2,127
Miscellaneous	**9,054**	7,359
Total cost of sales, selling and marketing expenses and administrative expenses	**2,744,189**	2,349,820

20 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**456,075**	395,564
Social security costs	**107,893**	92,417
Share options granted to directors and employees *(Note 18(b)(i), (ii))*	**1,066**	2,407
	565,034	490,388

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include two (2017: two) directors whose emoluments are reflected in the analysis presented below. The emoluments payable to the remaining three (2017: three) individuals during the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries	**2,340**	2,223
Discretionary bonus	**1,463**	1,513
Social security costs	**288**	242
Share options *(Note 18(b))*	**39**	85
	4,130	4,063

The emoluments fell within the following bands:

	Year ended 31 December	
	2018	2017
Emolument bands:		
Nil to HKD1,500,000	**–**	–
HKD1,500,001 to HKD2,000,000	**3**	3
HKD2,000,001 to HKD2,500,000	**–**	–
HKD2,500,001 to HKD3,000,000	**–**	–
	3	3

No directors 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.

21 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of every director and chief executive is set out below:

For the year ended 31 December 2018:

	Emoluments paid or receivable in respect of a person's services as a director, whether the Company or its subsidiary undertaking									
	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Social Security RMB'000	Allowance RMB'000	Share options RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Year ended 31 December 2018										
Zhang Jun (張軍)	–	706	741	65	–	–	–	–	–	1,512
Wang Tao (汪濤)	–	779	597	99	–	–	–	–	–	1,475
Zhang Shuman (張姝嫚)	205	1,003	–	54	–	–	–	–	–	1,262
Yuan Pengbin (袁鵬斌)	–	610	–	78	–	–	–	–	–	688
Li Huaiqi (李懷奇)	205	–	–	–	–	–	–	–	–	205
Yang Qingli (楊慶理)	227	–	–	–	–	–	–	–	–	227
Wang Tao (王濤)	205	–	–	–	–	–	–	–	–	205
Liu Haisheng (劉海勝)	205	–	–	–	–	–	–	–	–	205
Wong Man Chung Francis (黃文宗)	205	–	–	–	–	–	–	–	–	205
Shi Zheyan (施哲彥)	205	–	–	–	–	–	–	–	–	205
	1,457	3,152	1,338	242	–	–	–	–	–	6,189

21 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

For the year ended 31 December 2017:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking									
	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Social Security RMB'000	Allowance RMB'000	Share options RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Year ended 31 December 2017										
Zhang Jun (張軍)	–	706	751	64	–	–	–	–	–	1,521
Wang Tao (汪濤)	–	728	548	67	–	–	–	–	–	1,343
Zhang Shuman (張姝嫚)	156	235	–	–	–	–	–	–	–	391
Yuan Pengbin (袁鵬斌)	–	772	49	75	–	–	–	–	–	896
Li Huaiqi (李懷奇)	–	193	–	–	–	–	–	–	–	193
Yang Qingli (楊慶理)	260	–	–	–	–	–	–	–	–	260
Wang Tao (王濤)	193	–	–	–	–	–	–	–	–	193
Lee Siang Chin*	32	–	–	–	–	–	–	–	–	32
Liu Haisheng (劉海勝)	193	–	–	–	–	–	–	–	–	193
Wong Man Chung Francis (黃文宗)**	156	–	–	–	–	–	–	–	–	156
Shi Zheyan (施哲彥)***	87	–	–	–	–	–	–	–	–	87
	1,077	2,634	1,348	206	–	–	–	–	–	5,265

* Resigned on 24 March 2017
** Appointed on 24 March 2017
*** Appointed on 25 August 2017

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

22 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Government grants	**8,941**	10,556
Net gains on disposal of subsidiaries *(a)*	**2,910**	8,095
Gains on disposal of a joint venture *(b)*	**113**	–
Losses on disposal of property, plant and equipment – net	**(14,310)**	(1,193)
Exchange gains/(losses)	**62,862**	(114,239)
Others	**(3,635)**	1,931
	56,881	(94,850)

(a) On 30 September 2018, Hilong Group of Companies Ltd. transferred its 100% equity interest of Jiangsu Hilong Drill Pipe Co., Ltd. to Jiangsu Shuguang Group Co., Ltd. at a consideration of RMB24,727,622. The Group recorded a gain of approximately RMB3,446,597 from the disposal. RMB15,727,622 of the consideration was waived by an offsetting agreement and the remaining balance of RMB9,000,000 was not collected.

On 30 September 2018, Hilong Group of Companies Ltd. and Hilong Energy Limited transferred their total 51% equity interest of Shanxi Tangrong Hilong Drill Tools Co., Ltd. to Shanxi Tangrong Machinery Manufacturing Co., Ltd. at a consideration of RMB16,160,000. The Group recorded a loss of approximately RMB536,125 from the disposal. RMB8,240,000 of the consideration was waived by an offsetting agreement and the remaining balance of RMB7,920,000 was collected in 2018.

(b) On 27 December 2018, Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. was liquidated (Note 10). The Group recorded a gain of approximately RMB113,200 from the disposal of investment.

23 FINANCE COSTS – NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**7,630**	15,004
– Exchange gains	**–**	122,571
– Fair value gains on financial assets at FVPL	**1,475**	–
– Fair value gains on foreign exchange forward contracts	**–**	1,147
	9,105	138,722
Finance costs:		
– Interest expense on bank borrowings	**(217,459)**	(196,177)
– Less: interest capitalised	**4,996**	–
– Fair value losses on financial assets at FVPL	**–**	(220)
– Exchange losses	**(106,328)**	–
	(318,791)	(196,397)
Finance costs – net	**(309,686)**	(57,675)

24 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax	**108,050**	84,211
Deferred income tax *(Note 12)*	**(26,038)**	(38,298)
Income tax expense	**82,012**	45,913

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	
	2018	2017
	RMB'000	RMB'000
Profit before tax	**232,543**	171,613
Tax calculated at statutory tax rates applicable to each group entity	**51,228**	29,889
Tax effect of:		
Expenses not deductible for tax purpose	**5,057**	1,775
Additional deduction for research and development expenses *(b)*	**(8,242)**	(6,728)
Utilisation of previously unrecognised tax losses	**(12,957)**	(5,216)
Tax losses of subsidiaries not recognised	**46,926**	26,193
Tax charge	**82,012**	45,913

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the years ended 31 December 2018 and 2017.

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates ranging from 15% to 35% prevailing in the places in which these enterprises operated for the year ended 31 December 2018 (31 December 2017: 15% to 34%).

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

24 INCOME TAX EXPENSE (continued)

Certain subsidiaries are qualified for new/high-tech technology enterprises status or incorporated in the western region of the Mainland China and engaged in encouraged industries, and therefore enjoy a preferential income tax rate of 15% (see Note 24(a) below).

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

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate can be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the PRC holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2016 to 2018.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 29 December 2018 and 29 December 2017, all the earnings generated by the Company's wholly-owned PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB6,437,000 (2017: RMB9,993,000) have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2018 and 2017. As at 31 December 2018, deferred income tax liabilities of RMB73,653,000 (31 December 2017: RMB67,216,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,473,060,000 (31 December 2017: RMB1,344,320,000).

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

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

	Year ended 31 December	
	2018	2017
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	15%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	15%
Shanghai Boteng Welding Consumable Co., Ltd.*	**15%**	15%
Shenglong Oil and Gas Pipeline Inspection Technology Co.*	**15%**	25%
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.*	**15%**	25%

* Shanghai Hilong Drill Pipe Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Hilong Drill Pipe (Wuxi) Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

24 INCOME TAX EXPENSE (continued)

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

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2017 to 2019.

* Hilong Pipeline Engineering Technology Service Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2018 to 2020.

* Sichuan Hilong Petroleum Technology Co., Ltd. is incorporated in the western region of China and is engaged in encouraged industries, and enjoys a preferential income tax of 15% for the six years from 2015 to 2020.

* Shanghai Boteng Welding Consumable Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2018 to 2020.

* Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2018 and 2017.

(b) Additional deduction for research and development expenses

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 75% of the actual research and development expenses incurred.

25 EARNINGS PER SHARE

Basic earnings per share

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

	Year ended 31 December	
	2018	2017
Profit attributable to equity owners of the Company *(RMB'000)*	**148,741**	119,150
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic earnings per share *(RMB per share)*	**0.0877**	0.0702

25 EARNINGS PER SHARE (continued)

Diluted earnings per share

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 one category of dilutive potential ordinary shares: share options.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 31 December) 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.

As at 31 December 2018, there were 29,564,300 (31 December 2017: 29,564,300) share options outstanding related to Pre-IPO share option plan (Note 18(b)(i)). For the years ended 31 December 2018 and 31 December 2017, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 31 December 2018, there were 17,221,200 (31 December 2017: 17,221,200) share options outstanding related to 2013 Share Option Scheme (Note 18(b)(ii)). For the years ended 31 December 2018 and 31 December 2017, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

26 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 22 March 2019, a final dividend of HKD0.0100 (equivalent to approximately RMB0.0088) per share for the year ended 31 December 2018 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 12 July 2019 to the shareholders of the Company whose names appear on the register of members of the Company as at 4 July 2019. The total amount is estimated to be HKD16,964,000 (equivalent to approximately RMB14,928,000). These financial statements do not reflect this dividend payable.

The dividend in respect of 2017 of HKD0.0100 (equivalent to RMB0.0087) per share, amounted to a total dividend of HKD16,964,000 (equivalent to RMB14,734,000), was approved at the Company's annual general meeting on 22 June 2018. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2018 and paid out.

The dividend in respect of 2016 of HKD0.0100 (equivalent to RMB0.0086) per share, amounted to a total dividend of HKD16,964,000 (equivalent to RMB14,616,000), was approved at the Company's annual general meeting on 23 June 2017. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2017 and paid out.

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

27 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax for the year	**232,543**	171,613
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 7)*	**272,011**	265,735
– Amortization of lease prepayments *(Note 8)*	**2,100**	2,127
– Amortization of intangible assets *(Note 9)*	**3,928**	2,195
– Amortization of long term assets *(Note 11)*	**12,917**	9,743
– Provision for loss allowance of receivables *(Note 14(b)(ii))*	**12,418**	10,653
– Share of profit of investments accounted for using equity method *(Note 10)*	**(7,121)**	(4,611)
– Gains on disposal of subsidiaries and joint venture *(Note 22)*	**(3,023)**	(8,095)
– Finance costs *(Note 23)*	**317,316**	72,679
– Net losses on disposal of property, plant and equipment *(Note 22)*	**14,310**	1,193
– Share option expenses *(Note 18(b))*	**1,066**	2,407
	858,465	525,639
Changes in working capital:		
– Increase in trade and other receivables	**(87,746)**	(295,808)
– Increase in inventories	**(187,564)**	(125,188)
– Increase in restricted cash	**(30,643)**	(52,254)
– Increase/(decrease) in deferred revenue	**19,487**	(9,040)
– Increase in trade and other payables	**13,409**	271,051
	(273,057)	(211,239)
Cash generated from operations	**585,408**	314,400

27 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	
	2018	2017
	RMB'000	RMB'000
Net book amount *(Note 7)*	**35,874**	18,887
Net losses on disposal of property, plant and equipment *(Note 22)*	**(14,310)**	(1,193)
Proceeds from disposal of property, plant and equipment	**21,564**	17,694
Collected in 2018	**2,447**	8,351
Not yet collected *(i)*	**19,117**	9,343
	21,564	17,694

(i) The not yet collected amount of RMB9,343,000 as at 31 December 2017 has been fully collected in 2018.

(c) Net debt reconciliation

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents *(Note 14(c))*	**661,738**	389,014
Restricted cash *(Note 14(c))*	**184,479**	150,006
Financial assets at FVPL *(Note 14(a))*	**–**	24,040
Borrowings – repayable within one year *(Note 14(d))*	**(575,942)**	(544,012)
Borrowings – repayable after one year *(Note 14(d))*	**(2,494,673)**	(1,905,440)
Net debt	**(2,224,398)**	(1,886,392)
Cash and liquid investments	**846,217**	563,060
Gross debt – fixed interest rates	**(2,706,930)**	(2,255,513)
Gross debt – variable interest rates	**(363,685)**	(193,939)
Net debt	**(2,224,398)**	(1,886,392)

27 CASH GENERATED FROM OPERATIONS (continued)

(c) Net debt reconciliation (continued)

	Other assets		Liability from financing activities		
	Cash and Cash equivalent RMB'000	**Financial assets at FVPL** RMB'000	**Borrowings due with one year** RMB'000	**Borrowings due after one year** RMB'000	**Total** RMB'000
Net debt as at 1 January 2018	389,014	24,040	(544,012)	(1,905,440)	(2,036,398)
Cash flows	269,277	(25,515)	(26,594)	(472,817)	(255,649)
Foreign exchange adjustments	3,447	–	(3,770)	(106,005)	(106,328)
Commissions	–	–	437	13,340	13,777
Amortization	–	–	(2,003)	(23,751)	(25,754)
Other non-cash movements	–	1,475	–	–	1,475
Net debt as at 31 December 2018	661,738	–	(575,942)	(2,494,673)	(2,408,877)

28 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Property, plant and equipment	**–**	294,039

(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	
	2018 **RMB'000**	2017 RMB'000
No later than 1 year	**32,865**	36,295
Later than 1 year and no later than 3 year	**30,262**	59,999
Later than 3 years	**17,254**	14,344
	80,381	110,638

29 RELATED PARTY TRANSACTIONS

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 51.97% (31 December 2017: 51.97%) equity interest in the Company as at 31 December 2018. 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 2018 and 2017, and balances arising from related party transactions as at 31 December 2018 and 2017.

(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

Hilong Group Limited
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hailong Oil Investments Co., Ltd.
Shanghai Hilong Shine New Material Co., Ltd.
Shanghai Longshi Investment Management 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.
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

(v) Joint venture of the Group

Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.*

(vi) Subsidiaries of the Group

Details of subsidiaries of the Group refer to Note 30.

* Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. was liquidated on 27 December 2018 (Note 10 and Note 22).

29 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2018 and 2017, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of goods or services:		
Shanghai Hilong Shine New Material Co., Ltd.	**21,880**	1,308
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**15,685**	33,094
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**11,023**	700
	48,588	35,102
Purchase of goods or services:		
Shanghai Hilong Shine New Material Co., Ltd.	**8,956**	8,776
Rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**10,820**	9,920
Shanghai Longshi Investment Management Co., Ltd.	**2,835**	1,129
	13,655	11,049
Rental income:		
Shanghai Hilong Shine New Material Co., Ltd.	**1,238**	–
Disposal of a subsidiary:		
Beijing Huashi Hailong Oil Investments Co., Ltd. *(Note 22)*	**–**	8,095

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.

29 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**1,805**	4,612
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,234**	1,313
	4,039	5,925
Other receivables due from:		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**52,484**	19,786
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**44,621**	48,485
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**24,609**	24,192
Shanghai Hilong Shine New Material Co., Ltd.	**7,112**	4,377
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**3,525**	6,525
Hilong Group Limited	**1,515**	1,515
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**–**	2,382
	133,866	107,262
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**15,984**	30,265
Other payables due to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**10,355**	4,242
Shanghai Longshi Investment Management Co., Ltd.	**3,964**	1,129
Shanghai Hilong Shine New Material Co., Ltd.	**3,774**	29,712
Mr. Zhang Jun	**938**	938
	19,031	36,021
Dividend receivables:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,036**	1,550
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**–**	3,487
	2,036	5,037

The receivables and payables from related parties were unsecured, no interest bearing and repayable on demand.

29 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Salaries	**8,485**	8,675
Discretionary bonus	**4,662**	4,383
Social security costs	**881**	775
Share options	**39**	85
	14,067	13,918

30 SUBSIDIARIES

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) As at 31 December 2018	2017	Direct/ Indirect	Principal activities
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 8 March 2002	RMB26,000,000	**51%**	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	the PRC, 22 October 2003	USD2,960,000	**38.09%**	38.09%	Indirect	Coating service provision
Hilong Group of Companies Ltd.	the PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	the PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Pipeline Engineering Technology Service Co., Ltd.	the PRC, 9 November 2005	RMB50,000,000	**100%**	100%	Indirect	Coating service provision

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) As at 31 December		Direct/ Indirect	Principal activities
			2018	2017		
Shanghai Boteng Welding Consumable Co., Ltd.	the 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	the 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.	the PRC, 17 November 2006	RMB50,000,000	**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 and coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	the PRC, 30 April 2007	RMB105,880,000	**95%**	95%	Indirect	Manufacture and distribution of special steel
KeAoTe Petroleum Engineering Co., Ltd.	the PRC, 7 January 2008	RMB20,000,000	**45.4%**	45.4%	Indirect	Coating service provision

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) As at 31 December 2018	2017	Direct/ Indirect	Principal activities
Hilong Energy Limited	Hong Kong, 8 July 2008	HKD1	**100%**	100%	Indirect	Investment holding
Hilong Oil Service & Engineering Co., Ltd.	the PRC, 16 July 2008	RMB80,000,000	**100%**	100%	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.	the PRC, 5 January 2009	RMB120,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	the PRC, 13 January 2009	RMB10,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD5,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltd.	The Republic of Ecuador, 18 March 2009	USD20,000,000	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	the PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	the PRC, 9 June 2009	RMB6,000,000	**100%**	100%	Indirect	Coating service provision
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 18 September 2009	RMB20,000,000	**51%**	51%	Indirect	Coating service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) As at 31 December 2018	2017	Direct/ Indirect	Principal activities
Hilong Pipeline Engineering Technology Service Taicang Co., Ltd.	the PRC, 29 September 2010	RMB15,000,000	**100%**	100%	Indirect	Coating service provision
Hilong Oil Service Sucursal Colombia Ltd.	Columbia, 8 February 2012	COP90,734,500	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	the PRC, 1 November 2012	RMB10,000,000	**100%**	100%	Indirect	Research and development on the technology of coating services
Trade House Hilong-Rus Co. Ltd.	Russia, 25 March 2013	RUB300,000	**100%**	100%	Indirect	Oil and gas equipment trading
Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd.	Pakistan, 4 April 2013	PKR5,000,000	**100%**	100%	Indirect	Oil service provision
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.	the PRC, 11 October 2013	RMB50,000,000	**100%**	100%	Indirect	Research, inspection and repairment of oil and gas equipment
Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited	Hong Kong, 9 December 2013	HKD1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Marine Engineering (Hong Kong) Limited	Hong Kong, 16 December 2013	HKD1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong USA Holding Corp.	USA, 11 February 2014	USD10	**100%**	100%	Indirect	Investment holding
Texas Internal Pipe Coating, LLC	USA, 26 July 2012	Nil	**100%**	100%	Indirect	Coating service provision
Hilong TIPC Asset Management LLC	USA, 11 February 2014	Nil	**100%**	100%	Indirect	Investment holding

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) As at 31 December 2018	2017	Direct/ Indirect	Principal activities
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.	the PRC, 17 April 2014	RMB60,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Mine Drill Pipe Co., Ltd.	the PRC, 11 April 2014	RMB5,000,000	**80%**	80%	Indirect	Manufacture and distribution of oil and gas equipment
Technomash LLC	Russia, 23 November 2009	RUB62,332,000	**100%**	100%	Indirect	Investment holding
Hilong Offshore Oil Development Co., Ltd.	the PRC, 3 December 2014	USD80,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Drilling & Engineering Service Ltd (Malaysia)	Malaysia, 15 January 2014	USD1,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Albania SHPK	Albania, 28 July 2014	ALL3,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Offshore Engineering Limited	the PRC, 12 March 2014	RMB50,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Petroleum Offshore Engineering Services (Shanghai) Co.Ltd.	the PRC, 18 February 2014	RMB15,000,000	**100%**	100%	Indirect	Offshore design service provision
Hilong Petroleum Technical Services Nigeria Limited	Nigeria, 24 March 2014	NGN5,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Perú S.A.C.	Peru, 30 March 2015	PEN3,000	**100%**	100%	Indirect	Oilfield service provision

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%) As at 31 December 2018	2017	Direct/ Indirect	Principal activities
Hilong Oil Service DMCC	Dubai, UAE, 28 June 2015	AED160,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Pipeline Service (Surgut)	Russia, 2 March 2017	RUB1,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Zuanbeicai International Trading Co., Ltd	the PRC, 28 June 2017	RMB2,000,000	**100%**	100%	Indirect	Distribution and trading of oil and gas equipment
Well X, Inc (US)	USA, 9 July 2017	USD65,000	**62.50%**	62.50%	Indirect	Oilfield service provision
Hilong Oil & Gas Service Co., Ltd	the PRC, 20 March 2017	RMB17,400,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Offshore (M) SDN. BHD	Malaysia, 30 August 2017	MYR100	**100%**	100%	Indirect	Offshore oilfield service provision
OHJV.SDN.BHD	Malaysia, 21 August 2017	MYR1,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Oriente Co. Ltd	The Republic of Ecuador, 24 October 2017	USD2,000	**100%**	100%	Indirect	Oilfield service provision
West Texas Internal Pipe Coating	USA, 18 May 2017	Nil	**100%**	100%	Indirect	Coating service provision
West Texas Internal Pipe Asset Management LLC	USA, 18 May 2017	Nil	**100%**	100%	Indirect	Investment holding
Hilong Group (Shanghai) Information Technology Company	the PRC, 15 June 2018	RMB900,000	**100%**	–	Indirect	Coating service provision
Hilong Petroleum Pipe Service (Orenburg) Limited Liability Company	Russia, 28 August 2018	RUB10,000	**100%**	–	Indirect	Coating service provision

* Jiangsu Hilong Drill Pipe Co., Ltd. was disposed in September 2018.

* Shanxi Tangrong Hilong Drill Tools Co., Ltd. was disposed in September 2018.

* The above subsidiaries established in the PRC are in the legal form of limited liability company.

31 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 22 March 2019, a dividend of HKD0.0100 (equivalent to approximately RMB0.0088) per share was proposed. Details refer to Note 26.

32 RECLASSIFICATION OF COMPARATIVE FIGURES

The comparative figure for interest paid in the consolidated statement of cash flows has been reclassified from operating cash flows to financing cash flows to conform to the current year presentation (Note 3).

33 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

		As at 31 December	
	Note	**2018 RMB'000**	2017 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**54,221**	53,155
Current assets			
Trade and other receivables		**3,996,654**	4,399,767
Cash and cash equivalents		**4,206**	8,867
		4,000,860	4,408,634
Total assets		**4,055,081**	4,461,789
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares		**141,976**	141,976
Other reserves	*Note (a)*	**1,221,745**	1,220,679
Retained earnings	*Note (a)*	**19,386**	19,201
Total equity		**1,383,107**	1,381,856
LIABILITIES			
Non-current liabilities			
Borrowings		**2,316,842**	1,905,022
Current liabilities			
Trade and other payables		**195,420**	1,057,715
Borrowings		**159,712**	117,196
		355,132	1,174,911
Total liabilities		**2,671,974**	3,079,933
Total equity and liabilities		**4,055,081**	4,461,789

The balance sheet of the Company was approved by the Board of Directors on 22 March 2019 and was signed on its behalf.

Director: Zhang Jun　　　　Director: Wang Tao (汪濤)

33 BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY (continued)

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
As at 1 January 2017	21,280	1,218,272
Profit for the year	12,537	–
Dividend paid relating to 2016	(14,616)	–
2013 Share Option Scheme	–	2,407
As at 31 December 2017	19,201	1,220,679
As at 1 January 2018	**19,201**	**1,220,679**
Profit for the year	**14,919**	**–**
Dividend paid relating to 2017	**(14,734)**	**–**
2013 Share Option Scheme	**–**	**1,066**
As at 31 December 2018	**19,386**	**1,221,745**

34 APPROVAL AND AUTHORIZATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on 22 March 2019.

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,				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**3,222,416**	2,669,347	1,929,037	2,484,329	2,575,986
Gross profit	**1,020,682**	845,601	666,794	809,906	1,020,579
Gross profit margin	**31.7%**	31.7%	34.6%	32.6%	39.6%
Operating profit	**535,108**	224,677	492,461	424,521	535,792
Operating profit margin	**16.6%**	8.4%	25.5%	17.1%	20.8%
Profit for the year	**150,531**	125,700	127,909	174,111	415,174
Profit attributable to					
Equity owners of the Company	**148,741**	119,150	124,611	160,893	397,692
Non-controlling interests	**1,790**	6,550	3,298	13,218	17,482

Consolidated assets, equity and liabilities	As at 31 December,				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
ASSETS					
Non-current assets	**3,864,576**	3,442,905	3,607,018	3,476,766	3,275,391
Current assets	**4,035,121**	3,707,651	3,691,156	3,587,633	3,351,624
Total assets	**7,899,697**	7,150,556	7,298,174	7,064,339	6,627,015
EQUITY AND LIABILITIES					
Total equity	**3,522,010**	3,463,775	3,491,878	3,256,136	3,143,249
Non-current liabilities	**2,581,169**	1,970,125	1,397,346	1,152,828	1,700,393
Current liabilities	**1,796,518**	1,716,656	2,408,950	2,655,435	1,783,373
Total liabilities	**4,377,687**	3,686,781	3,806,296	3,808,263	3,483,766
Total equity and liabilities	**7,899,697**	7,150,556	7,298,174	7,064,339	6,627,015

The above summary does not form a part of the consolidated financial statements.