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Hilong Holding Limited

海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,181.6 million, representing an increase of approximately 1.4% as compared with the same period in 2013.
- Gross profit was approximately RMB448.0 million, representing a decrease of approximately 6.9% as compared with the same period in 2013.
- Profit for the period was approximately RMB189.3 million, representing an increase of approximately 60.3% as compared with the same period in 2013.
- Profit attributable to equity owners of the Company was approximately RMB179.3 million, representing an increase of approximately 73.4% as compared with the same period in 2013.
- The Board resolved not to declare any interim dividend for the six months ended 30 June 2014.

* For identification purposes only

The board (the “**Board**”) of directors (the “**Directors**”) of Hilong Holding Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**” or “**Hilong**”) prepared according to the Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the six months ended 30 June 2014 (the “**Interim Period**”) as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2014

		(Unaudited)	
		Six months ended 30 June	
	Note	2014	2013
		RMB'000	RMB'000
Revenue	4(a)	1,181,610	1,165,168
Cost of sales		<u>(733,596)</u>	<u>(684,139)</u>
Gross profit		448,014	481,029
Selling and marketing expenses		(69,450)	(56,997)
Administrative expenses		(163,305)	(135,902)
Other gain/(losses) – net		<u>23,173</u>	<u>(92,463)</u>
Operating profit		<u>238,432</u>	<u>195,667</u>
Finance income		1,234	4,743
Finance costs		<u>(50,715)</u>	<u>(34,140)</u>
Finance costs – net		<u>(49,481)</u>	<u>(29,397)</u>
Share of profit/(losses) of investments accounted for using equity method		<u>2,335</u>	<u>(4,981)</u>
Profit before income tax		191,286	161,289
Income tax expense	5	<u>(1,960)</u>	<u>(43,159)</u>
Profit for the period		<u>189,326</u>	<u>118,130</u>
Profit attributable to:			
Equity owners of the Company		179,318	103,399
Non-controlling interests		<u>10,008</u>	<u>14,731</u>
		<u>189,326</u>	<u>118,130</u>
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	6	0.1057	0.0634
– Diluted	6	<u>0.1048</u>	<u>0.0631</u>
Dividends	7	<u>–</u>	<u>–</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2014

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (continued)

As at 30 June 2014

		(Unaudited) 30 June 2014 RMB'000	(Audited) 31 December 2013 RMB'000
	Note		
LIABILITIES			
Non-current liabilities			
Borrowings		1,457,675	506,676
Deferred income tax liabilities	5	38,436	76,872
Derivative financial instruments		3,904	3,668
Deferred revenue		22,986	22,839
		<u>1,523,001</u>	<u>610,055</u>
Current liabilities			
Trade and other payables	10	655,825	661,248
Current income tax liabilities		6,516	7,987
Borrowings		642,224	654,004
Derivative financial instruments		186	323
Deferred revenue		61	61
		<u>1,304,812</u>	<u>1,323,623</u>
Total liabilities		<u>2,827,813</u>	<u>1,933,678</u>
Total equity and liabilities		<u>5,775,482</u>	<u>4,807,265</u>
Net current assets		<u>2,063,630</u>	<u>1,470,256</u>
Total assets less current liabilities		<u>4,470,670</u>	<u>3,483,642</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2014

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

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2014

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2014

1 BASIS OF PREPARATION

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

2 ACCOUNTING POLICIES

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

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

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

- Amendment to HKAS 32 “Financial instruments: Presentation – Offsetting financial assets and financial liabilities” is to the application guidance in HKAS 32 “Financial instruments: Presentation”, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.
- Amendments to HKFRS 10, 12 and HKAS 27 “Consolidation for investment entities” give an exception to entities that meet an “investment entity” definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.
- Amendment to HKAS 36 “Impairment of assets” on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.
- HK(IFRIC) 21 “Levies” is an interpretation of HKAS 37, “Provisions, contingent liabilities and contingent assets”. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this amendment has no material impact on the unaudited condensed consolidated interim financial information.

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

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

2 ACCOUNTING POLICIES (Continued)

New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

- Amendment to HKAS 19 “Employee benefits” on defined benefit plans, effective for the accounting period beginning on or after 1 July 2014.
- Annual improvements 2012, effective for the accounting period beginning on or after 1 July 2014.
- Annual improvements 2013, effective for the accounting period beginning on or after 1 July 2014.
- HKFRS 14 “Regulatory Deferral Accounts”, effective for the accounting period beginning on or after 1 January 2016.
- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operation, effective for the accounting period beginning on or after 1 January 2016.
- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation, effective for the accounting period beginning on or after 1 January 2016.
- HKFRS 15 “Revenue from contracts with customers”, effective for the accounting period beginning on or after 1 January 2017.
- HKFRS 9 “Financial Instruments”, effective for the accounting period beginning on or after 1 January 2018.

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

3 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group’s annual financial statements for the year ended 31 December 2013, with the exception of changes in estimates that are required in determining the deferred income tax liabilities for the withholding taxation on unremitted earnings of certain subsidiaries (see Note 5).

4 SEGMENT INFORMATION

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

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

4 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 condensed consolidated interim financial information. These assets are allocated based on the operations of segment. Investments accounted for using equity method are not considered to be segment assets but rather are managed by the treasury function.

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

During the six months ended 30 June 2014, the management restructured the existing business segments to achieve higher operating efficiency. The provision of oil country tubular goods (“OCTG”) coating services, which was reported in coating materials and services segment, has been moved to be reported in drill pipes and related products segment. After this restructuring, the drill pipes and related products segment was re-named to oilfield equipment manufacturing and services segment and the coating materials and services segment was re-named to line pipe technology and services segment. The comparatives have been reclassified to conform with the current period’s classification.

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

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

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

4 SEGMENT INFORMATION (Continued)

(a) Revenue

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

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

(b) Segment information

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

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

4 SEGMENT INFORMATION (Continued)

(b) Segment information (continued)

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

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

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

4 SEGMENT INFORMATION (Continued)

(b) Segment information (continued)

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

(c) Geographical segments

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

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

4 SEGMENT INFORMATION (Continued)

(c) Geographical segments (continued)

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

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

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

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

5 INCOME TAX EXPENSE

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

5 INCOME TAX EXPENSE (Continued)

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

Enterprises incorporated in British Virgin Islands are not subject to any income tax according to relevant rules and regulations.

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

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

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

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

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

Pursuant to China-Hong Kong Arrangement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, a lower 5% withholding tax rate may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("Hilong Energy") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries. The management continuously assessed whether Hilong Energy qualified as a "beneficial owner". Based on the additional information obtained, the management concluded that Hilong Energy qualified as a "beneficial owner" during the six months ended 30 June 2014. Such information included the fact that the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in China, to use a 5% withholding tax rate when it distributed its profits of RMB10,000,000 out of its 2012 earnings to Hilong Energy. Given the above, during the six months ended 30 June 2014, the Group applied a 5% dividend withholding tax rate when estimating its deferred income tax liability related to all prior years' earnings generated from those subsidiaries that are to be distributed to Hilong Energy. Accordingly, the related deferred income tax liability of RMB38,436,000 was reversed during the six months ended 30 June 2014 with a corresponding credit to the deferred income tax expenses in the condensed consolidated interim income statement.

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

6 EARNINGS PER SHARE

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

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

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

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

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

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

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

7 DIVIDENDS

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

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

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

8 TRADE AND OTHER RECEIVABLES

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

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

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

9 ORDINARY SHARES

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

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

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

10 TRADE AND OTHER PAYABLES

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

10 TRADE AND OTHER PAYABLES (Continued)

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

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

11 BUSINESS COMBINATION

The Group acquired a business relating to coating of the interior of pipes located in Texas, U.S. (“US Coating Business”) on 26 March 2014. As part of the business acquisition, the Company, through its wholly owned subsidiary in the U.S., Hilong USA Holding Corp., acquired a 100% equity interest in Texas Internal Pipe Coating, LLC (“TIPC”). In addition, the Group also acquired the relevant property, plant and equipment related to the US Coating Business from a company under the common control of the then selling shareholders of TIPC.

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

The following table summarizes the consideration paid for the US Coating Business, the fair value of assets acquired and liabilities assumed at the acquisition date:

	RMB'000
Consideration:	
Total cash consideration	<u>57,329</u>
Total consideration	57,329
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	33,730
Inventories	867
Trade and other payables	<u>(17,918)</u>
Total identifiable net assets	16,679
Goodwill	<u>40,650</u>
	<u>57,329</u>

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

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

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

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

Revenue increased by RMB16.4 million, or 1.4%, from RMB1,165.2 million for the six months ended 30 June 2013 to RMB1,181.6 million for the Interim Period. Such increase primarily reflected an increase in revenue from oilfield services segment and, to a lesser extent, from oilfield equipment manufacturing and services segment, partially offset by a decrease in revenue from the line pipe technology and services segment.

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

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

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

Revenue from sales of drill pipes in the international market increased by RMB92.5 million, or 48.3%, from RMB191.3 million for the six months ended 30 June 2013 to RMB283.8 million for the Interim Period. The increase primarily reflected a 49.6% increase in the volume of drill pipes sold from 7,922 tonnes for the six months ended 30 June 2013 to 11,854 tonnes for the Interim Period, while the average selling price remained stable. The increase in the sales volume primarily reflected the enhancement of Hilong's brand recognition in the international market.

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

Revenue from OCTG coating services remained stable, reflecting (i) revenue from OCTG coating services in the PRC market decreased due to less oil and gas exploration and production activities in the Interim Period, offset by (ii) revenue from OCTG coating services in the international market increased due to revenue contributed by our new plants in North America.

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

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

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

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

Oilfield services. Revenue from the oilfield services segment increased by RMB55.4 million, or 13.3%, from RMB417.1 million for the six months ended 30 June 2013 to RMB472.5 million for the Interim Period. Such increase was mainly attributable to (i) the increase in revenue from OCTG trading and related services provided to oilfield services clients, and (ii) higher oilfield services revenue earned as more drilling rigs were on-site for the Interim Period as compared to the six months ended 30 June 2013.

Cost of Sales/Services

Cost of sales increased by RMB49.5 million, or 7.2%, from RMB684.1 million for the six months ended 30 June 2013 to RMB733.6 million for the Interim Period. Such increase primarily reflected an increase in cost of oilfield equipment manufacturing and services segment and oilfield services segment, partially offset by a decrease in cost of line pipe technology and services segment.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit decreased by RMB33.0 million, or 6.9%, from RMB481.0 million for the six months ended 30 June 2013 to RMB448.0 million for the Interim Period. Gross margin decreased from 41.3% for the six months ended 30 June 2013 to 37.9% for the Interim Period. The decrease in gross margin primarily reflected the decrease in gross margin from oilfield equipment manufacturing and services segment and oilfield services segment, partially offset by increase in gross margin from line pipe technology and services segment.

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

Gross margin of oilfield services segment decreased from 39.3% for the six months ended 30 June 2013 to 35.0% for the Interim Period, reflecting (i) higher portion of revenue from OCTG trading and related services provided to oilfield services clients, which generally have lower gross margin than that of oilfield services, and (ii) fixed costs incurred for certain drill rigs under reallocation without revenue contribution in the Interim Period.

Gross margin of line pipe technology and services segment increased from 24.1% for the six months ended 30 June 2013 to 36.1% for the Interim Period, reflecting (i) higher gross margin of oil and gas line pipe coating services as a result of engagement in complex, large-scale projects in the Interim Period, and (ii) less portion of revenue derived from oil and gas line pipe materials, which generally have lower gross margin.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB12.5 million, or 21.9%, from RMB57.0 million for the six months ended 30 June 2013 to RMB69.5 million for the Interim Period, mainly attributable to our increasing efforts in developing and promoting in international markets for both oilfield equipment manufacturing and services segment and oilfield services segment.

Administrative Expenses

Administrative expenses increased by RMB27.4 million, or 20.2%, from RMB135.9 million for the six months ended 30 June 2013 to RMB163.3 million for the Interim Period. Such increase primarily reflected (i) an accretion of administrative expenses incurred in subsidiaries set-up or acquired by the Group since the second half of 2013, (ii) an increase in staff costs and office expenses incurred in connection with the expansion of oilfield services business, and (iii) the Group provided RMB1.2 million specific provision for impairment of certain receivables in the Interim Period, while reversed RMB3.0 million specific provision for impairment of certain receivables as such had been collected in the six months ended 30 June 2013.

Other Gain/(Losses) – Net

The Group recognized net loss of RMB92.5 million for the six months ended 30 June 2013 and net gain of RMB23.2 million for the Interim Period. The net gain recognized for the Interim Period primarily reflected (i) a net gain of RMB13.8 million in foreign exchange gain, and (ii) RMB6.7 million in government grants in relation to new and high-technology projects. The net loss recognized for the six months ended 30 June 2013 primarily reflected (i) a loss of RMB74.0 million in changes in fair value of the embedded derivative of the convertible bonds, and (ii) a net loss of RMB28.6 million in foreign exchange losses, partially offset by RMB8.5 million in government grants in relation to new and high-technology projects.

Finance Costs – Net

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

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB161.3 million for the six months ended 30 June 2013 to RMB191.3 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB43.2 million for the six months ended 30 June 2013 and RMB2.0 million for the Interim Period. Effective tax rate was approximately 26.8% for the six months ended 30 June 2013 and 1.0% for the Interim Period. The decrease in effective tax rate was mainly attributable to (i) the change of accounting estimate on withholding tax that would be payable on the accumulated unremitted earnings generated from the Company's PRC subsidiaries; we decreased the initial accrual rate of 10% to a preferential rate of 5% as we got an approval from the tax authorities in June 2014 to state that the dividends distribution qualified to be withheld under the preferential rate of 5%, and (ii) the RMB74.0 million non-deductible losses from changes in fair value of the embedded derivative of the convertible bonds recognized in the six months ended 30 June 2013.

Profit for the period

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

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain non-GAAP financial measures have been presented in this financial review. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of the Company's financial performance prepared in accordance with HKFRS.

The Company believes that, in conjunction with GAAP financial measures, the non-GAAP financial measures provide meaningful supplemental information to both investors and management in assessing the Group's performance and planning for future periods.

The non-GAAP financial measures do not include all items that impact the Group's financial performance prepared in accordance with HKFRS. It excludes share-based compensation expenses, losses in changes in fair value of the embedded derivative of the convertible bonds and fair value losses/(gains) on swap, which have been and might continue to be significant non-cash expenses in the Group's financial performance prepared in accordance with HKFRS. In addition, the non-GAAP financial measures may not be comparable to similarly titled measure utilized by other companies since such other companies may not calculate such measure in the same manner as the Company does.

The Company expects to compute the non-GAAP financial measures using consistent methods going forward. The following table sets forth the reconciliations of the non-GAAP financial measures for the Interim Period and the six months ended 30 June 2013 to the nearest measures prepared in accordance with HKFRS:

Six months ended 30 June 2014					
Adjustments					
	As Reported	Share-based	Changes in	Fair value	Non-GAAP
	RMB'000	compensation	fair value of	losses/(gains)	RMB'000
		RMB'000	the embedded	on swap (b)	
			derivative	RMB'000	
			of the		
			convertible		
			bonds (a)		
			RMB'000		
Operating profit	238,432	6,216	–	1,107	245,755
Profit before income tax	191,286	6,216	–	1,107	198,609
Profit attributable to equity owners of the Company	179,318	6,216	–	1,107	186,641
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	0.1057				0.1100
Six months ended 30 June 2013					
Adjustments					
	As Reported	Share-based	Changes in	Fair value	Non-GAAP
	RMB'000	compensation	fair value of	losses/(gains)	RMB'000
		RMB'000	the embedded	on swap (b)	
			derivative	RMB'000	
			of the		
			convertible		
			bonds (a)		
			RMB'000		
Operating profit	195,667	3,532	73,960	–	273,159
Profit before income tax	161,289	3,532	73,960	–	238,781
Profit attributable to equity owners of the Company	103,399	3,532	73,960	–	180,891
Basic earnings per share from operations attributable to equity owners of the Company (in RMB per share)	0.0634				0.1109

Note:

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

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

The convertible bonds have been fully converted to the Company’s ordinary shares in 2013.

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

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

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

Inventories

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

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

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

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

Trade and Other Receivables

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Trade receivables		
– Due from third parties	1,397,568	1,159,957
– Due from related parties	27,678	30,821
– Less: Provision for impairment of receivables	(21,163)	(20,000)
Trade receivables – net	1,404,083	1,170,778
Other receivables		
– Due from third parties	52,115	88,403
– Due from related parties	66,303	39,999
Other receivables	118,418	128,402
Bills receivable	50,997	105,781
Prepayments	133,824	128,802
Others	648	648
Total	1,707,970	1,534,411

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

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

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

As at 30 June 2014, trade receivables of RMB603.6 million, representing 42.4% of the Group's trade receivables before impairment, remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from subsidiaries' related party entities. As at the date indicated, the Group believes that there had been no change in their credit history or quality and the balances were fully collectable. The Group did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, the Board believes that no additional provision for impairment is necessary in respect of these balances.

The increase in turnover days of trade receivables from 165 days as at 31 December 2013 to 198 days as at 30 June 2014 primarily reflected that settlement for trade receivables was less active in the first half of the year than that in the second half of the year, which is industry practice especially in the PRC market.

Trade and Other Payables

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

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

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

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

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

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

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

Business Review

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

Oilfield services

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

Line pipe technology and services

Line pipe technology and services segment consists of coating materials, line pipe coating services, CRA, CWC and line pipe inspection service after the business segment restructuring. As compared with the same period in 2013¹, total revenue of the segment decreased by 30.7% to RMB120 million in the first half of 2014. The delay of line pipe construction projects in China resulted in the declined demand for line pipe coating materials and services in the domestic market. Given the uncertain prospects for line pipe construction projects in China in the short term, Hilong continued to make efforts in exploring the overseas markets in 2014 in search of new growth drivers for the traditional line pipe coating services. During the first half of 2014, Hilong was involved in several overseas line pipe coating services projects such as the APA Group project in Australia, demonstrating a notable progress in overseas market expansion. The CRA and CWC businesses which were launched in recent years were still at the early stage of development and have not reached the stage of large-scale operation. However, Hilong already obtained several CRA projects from China National Petroleum Corporation (“CNPC”) Tarim Oilfield and Sichuan Oil and Gas Construction Engineering Company Ltd. (四川石油天然氣建設工程有限責任公司), and obtained the order for the CWC portion of the APA Group project in Australia jointly with Baosteel. The work quality of all these projects was widely recognized by the customers. With further strengthened market positions, Hilong has also achieved remarkable growth in these businesses, which will evolve into the new impetus for the segment’s future growth. During the Interim Period, Hilong also seized the opportunity by launching the line pipe inspection service business. Winning the external inspection project for Shanghai Natural Gas Pipeline and the internal inspection projects for CNPC Shanjing Pipeline Phase III and Datang Coal Gas Pipeline enabled Hilong to establish the first-mover advantage and further extend and improve its value chain for line pipe technology and services, which will lay a solid foundation for providing one-stop solutions in the future.

Oilfield equipment manufacturing and services

After the business restructuring, drill pipe and related products and OCTG coating services are merged into the newly established oilfield equipment manufacturing and services segment. Revenue of the segment amounted to RMB589 million in the first half of 2014, reflecting a slight increase over the corresponding period last year². The business of drill pipe and related products achieved slight growth and realized a total revenue of RMB464 million during the Interim Period. Hilong maintained the leading and stable market position for its drill pipe products and achieved a significant breakthrough in overseas sales. During the first half of 2014, sales of drill pipe products generated from the overseas markets increased by 48.3% to RMB284 million and accounted for 66.2% of the total drill pipe sales. This indicated that Hilong’s drill pipe products have gained recognition from increasing international customers and the Company is capable of capturing more market shares globally in the future. New Non-API products including gas seal drill pipe and efficient cuttings bed clean drill pipe were successfully developed and introduced, and have been highly appreciated and widely recognized by the customers during the marketing process. The orders for premium products such as sour service drill pipe, slip-protected drill pipe and non-slip-crush drill pipe also recorded notable growth over the corresponding period of last year. In the first half of 2014, Hilong also launched drilling tools related services and completed certain preparatory work such as establishing the operational entity to be prepared for the subsequent development.

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

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

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

Offshore engineering services

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

Prospects

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

Looking ahead into the second half of 2014, Hilong is confident to continue its steady growth. Oilfield services segment will maintain the momentum of stable development. Hilong has already signed a contract with Kuwait Foreign Petroleum Exploration Company to provide drilling services with a 2,000HP drilling rig in Pakistan. The contract will significantly reinforce Hilong’s market position in the South Asian oilfield services market and effectively promote the scale of operation for Hilong’s oilfield service business in the local market.

Furthermore, the contract award indicated that Hilong's global leading competitive strength in onshore drilling service is widely recognized by the top-tier international oil & gas companies, representing Hilong's another breakthrough in high-end oilfield services market expansion. While expanding its high-end drilling rig fleet, the Company will also increase the revenue contribution from comprehensive services. Hilong has already established a professional team to develop mud engineering service. In addition, the Company will also strengthen its cooperation with international renowned customers and is dedicated to building the premium brand name for Hilong oilfield services.

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

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

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

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

Liquidity and Financial Resources

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

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

Operating Activities

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

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

Investing Activities

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

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

Financing Activities

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

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

Capital Expenditures

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

Indebtedness

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

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

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

Gearing Ratio

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

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

The gearing ratios as at 30 June 2014 and 31 December 2013 are as follows:

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

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

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar (“USD”). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People’s Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 25.7% appreciation of RMB against the USD from 21 July 2005 to 30 June 2014. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 40.7% and 47.2% of the total revenue of the Company for the six months ended 30 June 2013 and the Interim Period, respectively.

Business Combination

The Group acquired the business relating to coating of the interior of pipes located in Texas, U.S.(“US Coating Business”) on 26 March 2014. As part of the business acquisition, the Company, through its wholly owned subsidiary in U.S., Hilong USA Holding Corp., acquired 100% equity interest in TIPC. In addition, the Group also acquired the relevant property, plant and equipment related to the US Coating Business from a company under the common control of the then selling shareholders of TIPC.

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

Staff and Remuneration Policy

As at 30 June 2014, the total number of full-time employees employed by the Group was 2,374 (31 December 2013: 2,117). The following table sets forth the number of the Group’s full-time employees by area of responsibility as at 30 June 2014:

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

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

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

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

CORPORATE GOVERNANCE

Corporate Governance Code

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

Model Code for Securities Transactions by Directors of Listed Issuers

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

REVIEW OF INTERIM RESULTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDENDS

During the Interim Period, a final dividend of HK7.7 cents per share of the Company, amounting to a total dividend of approximately HK\$130.6 million (equivalent to approximately RMB103.9 million) for the year ended 31 December 2013, was paid to shareholders of the Company.

The Board resolved not to declare any interim dividend for the Interim Period (2013: nil).

PUBLICATION OF INTERIM RESULTS

This interim results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hilonggroup.net).

The interim report for the Interim Period containing all the information required by the Listing Rules will be despatched to shareholders of the Company and become available on the same websites in due course.

APPRECIATION

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

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

22 August 2014

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Jun, Mr. WANG Tao (汪濤) and Mr. JI Min; the non-executive directors are Ms. ZHANG Shuman, Mr. YUAN Pengbin and Mr. LI Huaiqi; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. LIU Qihua, Mr. LEE Siang Chin and Mr. LIU Haisheng.