Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,576.0 million, representing an increase of approximately 5.0% as compared with 2013.
- Gross profit was approximately RMB1,020.6 million, representing an increase of approximately 3.3% as compared with 2013. Gross profit margin remained stable in 2014.
- Profit attributable to equity owners of the Company was approximately RMB397.7 million, representing an increase of approximately 15.4% as compared with 2013.
- Basic earnings per share was approximately RMB0.2345, representing an increase of 13.1% as compared with 2013.
- The Board resolved to recommend a final dividend of HK5.0 cents per share for the year ended 31 December 2014, which is subject to the shareholders' approval at the forthcoming annual general meeting of the Company.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Hilong Holding Limited (the "**Company**" or "**Hilong**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRS**") for the year ended 31 December 2014 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2014

	Note	**Year ended 31 December** **2014** ***RMB'000***	2013 *RMB'000*
Revenue	*3*	**2,575,986**	2,452,358
Cost of sales		**(1,555,407)**	(1,464,407)
Gross profit		**1,020,579**	987,951
Selling and marketing expenses		**(138,755)**	(105,895)
Administrative expenses		**(331,469)**	(279,610)
Other income	*6*	**5,909**	1,945
Other losses – net	*7*	**(20,472)**	(100,197)
Operating profit		**535,792**	504,194
Finance income		**13,068**	8,467
Finance costs		**(90,098)**	(71,224)
Finance costs – net	*8*	**(77,030)**	(62,757)
Share of profit of investments accounted for using equity method		**2,947**	768
Profit before income tax		**461,709**	442,205
Income tax expense	*9*	**(46,535)**	(71,696)
Profit for the year		**415,174**	370,509
Profit attributable to:			
Equity owners of the Company		**397,692**	344,630
Non-controlling interests		**17,482**	25,879
		415,174	370,509
Earnings per share attributable to the equity owners of the Company during the year (expressed in RMB per share)			
Basic earnings per share	*10*	**0.2345**	0.2073
Diluted earnings per share	*10*	**0.2329**	0.2055
Dividends	*11*	**66,914**	102,677

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**415,174**	370,509
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(42,761)**	(39,339)
Other comprehensive income for the year, net of tax	**(42,761)**	(39,339)
Total comprehensive income for the year	**372,413**	331,170
Attributable to:		
Equity owners of the Company	**354,931**	305,291
Non-controlling interests	**17,482**	25,879
	372,413	331,170

CONSOLIDATED BALANCE SHEET
As at 31 December 2014

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,856,379**	1,614,236
Lease prepayments		**92,821**	94,956
Intangible assets		**159,377**	72,863
Investments accounted for using equity method		**56,660**	71,176
Deferred income tax assets		**109,355**	99,136
Other long-term assets		**799**	61,019
		3,275,391	2,013,386
Current assets			
Inventories		**840,540**	737,725
Trade and other receivables	*4*	**1,879,166**	1,534,411
Derivative financial instruments		**–**	1,007
Restricted cash		**83,861**	129,847
Cash and cash equivalents		**548,057**	390,889
		3,351,624	2,793,879
Total assets		**6,627,015**	4,807,265
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*12*	**141,972**	141,897
Other reserves		**1,117,187**	1,102,061
Retained earnings			
– Proposed final dividend	*11*	**66,914**	102,677
– Others		**1,711,176**	1,384,742
Currency translation differences		**(118,809)**	(76,048)
		2,918,440	2,655,329
Non-controlling interests		**224,809**	218,258
Total equity		**3,143,249**	2,873,587

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**1,629,961**	506,676
Deferred income tax liabilities		**44,448**	76,872
Derivative financial instruments		**2,406**	3,668
Deferred revenue		**23,578**	22,839
		1,700,393	610,055
Current liabilities			
Trade and other payables	*5*	**942,450**	661,248
Current income tax liabilities		**6,953**	7,987
Borrowings		**832,612**	654,004
Derivative financial instruments		**1,236**	323
Deferred revenue		**122**	61
		1,783,373	1,323,623
Total liabilities		**3,483,766**	1,933,678
Total equity and liabilities		**6,627,015**	4,807,265
Net current assets		**1,568,251**	1,470,256
Total assets less current liabilities		**4,843,642**	3,483,642

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Capital and reserves attributable to equity owners						
	Ordinary shares *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Cumulative translation differences *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2013	133,613	774,039	1,246,633	(36,709)	2,117,576	187,858	2,305,434
Comprehensive income							
Profit for the year	–	–	344,630	–	344,630	25,879	370,509
Other comprehensive income							
Currency translation differences	–	–	–	(39,339)	(39,339)	–	(39,339)
Total comprehensive income for the year	–	–	344,630	(39,339)	305,291	25,879	331,170
Appropriation to statutory reserve	–	5,137	(5,137)	–	–	–	–
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	–	3,539	–	–	3,539	–	3,539
Exercise of share options	552	13,775	–	–	14,327	–	14,327
Non-controlling interests arising on business combination	–	–	–	–	–	10,683	10,683
Acquisition of additional interests in a subsidiary	–	(383)	–	–	(383)	(1,177)	(1,560)
Dividends in respect of 2012	–	–	(98,707)	–	(98,707)	–	(98,707)
Dividends to non-controlling interests of subsidiaries	–	–	–	–	–	(4,985)	(4,985)
As at 31 December 2013	141,897	1,102,061	1,487,419	(76,048)	2,655,329	218,258	2,873,587
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 year	**–**	**–**	**397,692**	**–**	**397,692**	**17,482**	**415,174**
Other comprehensive income							
Currency translation differences	**–**	**–**	**–**	**(42,761)**	**(42,761)**	**–**	**(42,761)**
Total comprehensive income for the year	**–**	**–**	**397,692**	**(42,761)**	**354,931**	**17,482**	**372,413**
Appropriation to statutory reserve	**–**	**3,089**	**(3,089)**	**–**	**–**	**–**	**–**
Transactions with owners							
Pre-IPO share option plan	**–**	**3,092**	**–**	**–**	**3,092**	**–**	**3,092**
2013 Share Option Scheme	**–**	**11,594**	**–**	**–**	**11,594**	**–**	**11,594**
Exercise of share options	**75**	**1,868**	**–**	**–**	**1,943**	**–**	**1,943**
Acquisition of additional interests in subsidiaries	**–**	**(4,517)**	**–**	**–**	**(4,517)**	**(10,931)**	**(15,448)**
Dividends in respect of 2013	**–**	**–**	**(103,932)**	**–**	**(103,932)**	**–**	**(103,932)**
As at 31 December 2014	**141,972**	**1,117,187**	**1,778,090**	**(118,809)**	**2,918,440**	**224,809**	**3,143,249**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1 GENERAL INFORMATION OF THE GROUP

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

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

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

The consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

(a) New amendments and interpretation adopted by the Group in 2014

- Amendment to HKAS 32, "Financial instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a material impact on the consolidated financial statements.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the cash-generating units ("CGUs") which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures 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 consolidated financial statements.

- Amendment to HKAS 39, "Financial instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to "over-the-counter" derivatives and the establishment of central counterparties. The Group has applied the amendment and there has been no material impact on the consolidated financial statements as a result.

- HK(IFRIC) 21, "Levies", sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 "Provisions". The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognized. The adoption of this new standard has no material impact on the consolidated financial statements.

There are no other new standards and amendments to standards and interpretations that are effective for the first time for the financial year beginning on 1 January 2014 that could be expected to have a material impact on the Group.

(b) New standards and amendments to standards issued but are not effective in 2014 and not yet 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.
- Amendments to HKFRS 10 and HKAS 28 on sale or contribution of assets between an investor and its associate or joint venture, effective for the accounting period beginning on or after 1 January 2016.
- Amendment to HKAS 27 on equity method in separate financial statements, effective for the accounting period beginning on or after 1 January 2016.
- Annual improvements 2014, 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.

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

(c) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

3 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 of investments accounted for using equity method, which is consistent with that in the consolidated financial statements.

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

During the year, the management restructured the existing business segments to achieve higher operation efficiency. The provision of oil country tubular goods (“**OCTG**”) coating services, which were previously reported in the coating materials and services segment, has been moved to the 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 year’s classification.

The Group started up offshore engineering services business and entered into an agreement to purchase a pipe-lay barge on 30 December 2013. For the year ended 31 December 2014, the offshore engineering services segment was separately reported as it met the quantitative thresholds required by HKFRS 8 for reportable segments.

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

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

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

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

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

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2014 and 2013 are set out as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Oilfield equipment manufacturing and services	**1,270,405**	1,214,418
Line pipe technology and services	**271,644**	365,351
Oilfield services	**1,032,239**	872,589
Offshore engineering service	**1,698**	–
	2,575,986	2,452,358

(b) **Segment information**

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2014 is as follows:

	For the year ended 31 December 2014				
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	1,321,998	363,405	1,032,239	2,037	2,719,679
Inter-segment sales	(51,593)	(91,761)	–	(339)	(143,693)
Revenue from external customers	1,270,405	271,644	1,032,239	1,698	2,575,986
Results					
Segment gross profit	574,873	87,655	356,853	1,198	1,020,579
Segment profit/(loss)	253,641	52,884	238,865	(9,598)	535,792
Finance income					13,068
Finance costs					(90,098)
Share of profit of investments accounted for using equity method					2,947
Profit before income tax					461,709
Other information					
Depreciation of property, plant and equipment	58,252	11,093	92,170	140	161,655
Amortization of lease prepayments	1,231	904	–	–	2,135
Amortization of intangible assets	359	208	–	134	701
Capital expenditure	117,871	57,756	139,756	980,975	1,296,358

	As at 31 December 2014				
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	3,252,946	490,962	1,744,336	1,082,111	6,570,355
Investments accounted for using equity method					56,660
Total assets					6,627,015
Total liabilities	2,960,102	195,564	227,639	100,461	3,483,766

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

	For the year ended 31 December 2013				
Business segment	**Oilfield equipment manufacturing and services**	**Line pipe technology and services**	**Oilfield services**	**Offshore engineering services**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
Segment revenue	1,288,604	482,070	872,589	–	2,643,263
Inter-segment sales	(74,186)	(116,719)	–	–	(190,905)
Revenue from external customers	1,214,418	365,351	872,589	–	2,452,358
Results					
Segment gross profit	570,373	99,143	318,435	–	987,951
Segment profit	225,074	58,022	221,098	–	504,194
Finance income					8,467
Finance costs					(71,224)
Share of profit of investments accounted for using equity method					768
Profit before income tax					442,205
Other information					
Depreciation of property, plant and equipment	50,145	8,980	74,376	–	133,501
Amortization of lease prepayments	1,156	902	–	–	2,058
Amortization of intangible assets	296	242	3	–	541
Capital expenditure	53,888	64,958	339,641	60,969	519,456

	As at 31 December 2013				
Business segment	**Oilfield equipment manufacturing and services**	**Line pipe technology and services**	**Oilfield services**	**Offshore engineering services**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	2,660,949	537,642	1,476,529	60,969	4,736,089
Investments accounted for using equity method					71,176
Total assets					4,807,265
Total liabilities	1,524,696	205,965	203,017	–	1,933,678

(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 PRC, the Group produces and sells a broad range of drill pipes and related products, provides coating materials and services, and provides offshore engineering services. In Russia, Central Asia, East Europe, Middle East and North and South America, the Group sells drill pipe and related products. In Russia and North America, the Group provides coating services. In Central Asia, South Asia, West Africa and South America, the Group provides drilling and related oilfield engineering services. The following table shows the Group's total consolidated revenue by geographical market, regardless of where the goods were produced:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
North and South America	**903,701**	604,049
The PRC	**896,953**	1,219,740
Russia, Central Asia and East Europe	**285,460**	240,057
West Africa	**220,091**	219,947
Middle East	**152,194**	85,781
South Asia	**114,000**	61,243
Others	**3,587**	21,541
	2,575,986	2,452,358

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

	Carrying amount of segment assets As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
The PRC	**2,055,470**	902,286
North and South America	**479,842**	390,170
West Africa	**217,704**	238,572
Middle East	**127,106**	132,187
South Asia	**123,552**	141,653
Russia, Central Asia and East Europe	**104,903**	38,156
	3,108,577	1,843,024

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
The PRC	**1,193,609**	275,846
North and South America	**172,366**	58,154
Russia, Central Asia and East Europe	**87,516**	7,995
West Africa	**4,408**	129,276
Middle East	**1,224**	921
South Asia	**685**	141,653
	1,459,808	613,845

4 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Bills receivable *(a)*	**70,397**	105,781
Trade receivables *(b)*		
– Due from related parties	**68,052**	30,821
– Due from third parties	**1,492,739**	1,159,957
Less: provision for impairment of receivables *(d)*	**(25,793)**	(20,000)
Trade receivables – net	**1,534,998**	1,170,778
Other receivables *(c)*	**166,632**	128,402
Prepayments	**105,589**	128,802
Dividend receivables	**1,550**	648
Trade and other receivables – net	**1,879,166**	1,534,411

As at 31 December 2014 and 2013, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2014 and 2013, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
– RMB	**1,118,743**	965,127
– USD	**502,321**	441,765
– AED	**77,753**	12,975
– CAD	**57,016**	73,744
– NGN	**38,269**	6,551
– KZT	**35,310**	24,135
– RUB	**26,682**	–
– COP	**22,755**	4,017
– HKD	**317**	6,097
	1,879,166	1,534,411

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

(b) The ageing analysis of trade receivables, before provision for impairment, as at 31 December 2014 and 2013 was as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**1,012,791**	804,505
– Over 90 days and within 180 days	**187,679**	121,358
– Over 180 days and within 360 days	**129,314**	115,478
– Over 360 days and within 720 days	**168,441**	91,221
– Over 720 days	**62,566**	58,216
	1,560,791	1,190,778

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

As at 31 December 2014, trade receivables of RMB25,793,000 (31 December 2013: RMB20,000,000) were impaired and fully provided for impairment losses. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at 31 December 2014, trade receivables of RMB522,207,000 (31 December 2013: RMB366,273,000) were past due but not impaired. These mainly relate to the customers that are state-owned companies in the PRC which have good credit reputation and trading records with the Group. Based on the past experiences, the directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
– Over 90 days and within 180 days	**187,679**	121,358
– Over 180 days and within 360 days	**129,314**	115,478
– Over 360 days and within 720 days	**168,441**	91,221
– Over 720 days	**36,773**	38,216
	522,207	366,273

(c) Details of other receivables are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Due from related parties	**88,363**	39,999
Deposits	**31,631**	5,179
Staff advances	**11,847**	13,945
Value added tax refund	**10,044**	38,648
Due from non-controlling interests	**–**	10,400
Others	**24,747**	20,231
	166,632	128,402

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**(20,000)**	(23,383)
Additional provision	**(5,793)**	(4,454)
Write off of receivables	**–**	4,810
Reversal of provision	**–**	3,027
At the end of the year	**(25,793)**	(20,000)

5 TRADE AND OTHER PAYABLES

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Bills payable	**128,776**	142,126
Trade payables:		
– Due to related parties	**–**	1,247
– Due to third parties	**560,352**	339,710
Other payables:		
– Due to related parties	**48,624**	–
– Due to third parties	**86,494**	73,828
Staff salaries and welfare payables	**37,122**	29,489
Advances from customers	**25,533**	24,290
Interest payables	**1,096**	2,798
Accrued taxes other than income tax	**42,145**	24,691
Dividends payable	**1,463**	11,857
Other liabilities	**10,845**	11,212
	942,450	661,248

As at 31 December 2014 and 2013, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

As at 31 December 2014 and 2013, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
– RMB	**736,178**	581,284
– USD	**151,509**	40,297
– NGN	**18,497**	22,273
– RUB	**3,166**	359
– KZT	**14,019**	2,893
– AED	**9,449**	5,798
– PKR	**4,868**	7,735
– CAD	**4,764**	568
– HKD	**–**	41
	942,450	661,248

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**485,303**	310,169
– Over 90 days and within 180 days	**52,707**	7,043
– Over 180 days and within 360 days	**20,440**	2,560
– Over 360 days and within 720 days	**463**	19,477
– Over 720 days	**1,439**	1,708
	560,352	340,957

6 OTHER INCOME

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Gain on remeasuring existing interest in Hilong Temerso Co., Ltd. ("Hilong Temerso") *(Note 13(b))*	**5,909**	–
Gain on remeasuring existing interest in Nantong Hilong Steel Pipe Co., Ltd. ("Nantong Hilong") *(Note 13(c))*	**–**	1,945
	5,909	1,945

7 OTHER LOSSES – NET

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Government grants	**16,735**	14,359
Gains on disposal of property, plant and equipment – net	**2,250**	969
Exchange losses	**(41,822)**	(41,534)
Changes in fair value of the embedded derivative of the convertible bonds including exchange difference	**–**	(73,960)
Others	**2,365**	(31)
	(20,472)	(100,197)

8 FINANCE COSTS – NET

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Finance income:		
– Fair value gain on interest swaps and cross currency swaps	**1,511**	1,007
– Exchange gains	**4,861**	5,185
– Interest income derived from bank deposits	**6,696**	2,275
	13,068	8,467
Finance cost:		
– Interest expense on bank borrowings	**(112,268)**	(56,689)
Less: interest capitalised	**24,339**	–
– Amortization of the liability component of convertible bonds	**–**	(10,544)
– Fair value losses on foreign exchange forward contracts	**(1,162)**	–
– Fair value losses on interest swaps and cross currency swaps	**(1,007)**	(3,991)
	(90,098)	(71,224)
Finance costs – net	**(77,030)**	(62,757)

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current income tax	**91,210**	96,328
Deferred income tax	**(44,675)**	(24,632)
Income tax expense	**46,535**	71,696

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	
	2014	2013
	RMB'000	*RMB'000*
Profit before tax	**461,709**	442,205
Tax calculated at statutory tax rates applicable to each group entity	**66,594**	83,006
Tax effect of:		
Expenses not deductible for tax purpose	**6,688**	6,373
Reversal of deferred tax liability related to withholding tax on dividends	**(38,436)**	(19,000)
Additional deduction for research and development expense (b)	**(4,374)**	(3,017)
Tax losses of subsidiaries not recognized	**16,063**	4,334
Tax charge	**46,535**	71,696

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 2014 and 2013.

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 20% to 34% prevailing in the places in which the Group operated for the year ended 31 December 2014 (31 December 2013: 20% 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 Mainland of China is 25%.

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

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 of 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 of China in respect of their earnings generated from 1 January 2008.

Pursuant to Arrangement between the Mainland of 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 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" for the year ended 31 December 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 the PRC, 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, for the year ended 31 December 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 year ended 31 December 2014 with a corresponding credit to the deferred income tax expenses in the consolidated income statement.

Meanwhile, pursuant to a resolution of the Board of Directors of Hilong Group of Companies Ltd. in December 2014, all the earning generated from the Company's PRC subsidiaries will all be permanently reinvested in 2014. Accordingly, deferred income tax liabilities of RMB10,521,000 have not been recognized for withholding tax that would be payable on the unremitted earnings of generated from the Company's PRC subsidiaries for the year ended 31 December 2014. As at 31 December 2014, deferred income tax liabilities of RMB48,688,000 have not been recognized for the withholding tax that would otherwise be payable on the unremitted earnings of RMB973,760,000.

(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	
	2014	2013
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%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	15%

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

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

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax rate of 15% for the three years from 2014 to 2016.

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

* Shanghai Hilong Shine New Material Co., Ltd. is qualified for new/high-tech enterprises status and enjoys preferred income tax of 15% for the three years from 2014 to 2016.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2014 and 2013.

(b) Additional deduction for research and development expense

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

10 EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2014	2013
Profit attributable to equity owners of the Company *(RMB'000)*	**397,692**	344,630
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,203**	1,662,526
Basic earnings per share *(RMB per share)*	**0.2345**	0.2073

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: 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 annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the diluted earnings per share for the years ended 31 December 2014 and 2013 was shown as follows:

	Year ended 31 December	
	2014	2013
Profit attributable to equity owners of the Company *(RMB'000)*	**397,692**	344,630
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,203**	1,662,526
Adjustments for share options granted under the pre-IPO share option plan *(thousands of shares)*	**11,411**	14,325
Weighted average number of ordinary shares for diluted earnings per share *(thousands of shares)*	**1,707,614**	1,676,851
Diluted earnings per share *(RMB per share)*	**0.2329**	0.2055

As at 31 December 2014, there were 19,563,400 share options outstanding related to 2013 Share Option Scheme. For the year ended 31 December 2014, as the average market share price of the ordinary shares during the year was lower than the subscription price, the impact on earnings per share was anti-dilutive.

The convertible bonds were assumed to have been converted into ordinary shares, and the net profit was adjusted to eliminate the interest expense less the tax effect and any exchange and fair value movements. For the year ended 31 December 2013, the impact of weighted outstanding shares from the convertible bonds on earnings per share was anti-dilutive.

11 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 20 March 2015, a final dividend of HK$0.0500 (equivalent to approximately RMB0.0394) per share for the year ended 31 December 2014 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 15 July 2015 to the shareholders of the Company whose names appear on the register of members of the Company as at 7 July 2015. The total amount is estimated to be HK$84,820,000 (equivalent to approximately RMB66,914,000). These financial statements do not reflect this dividend payable.

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 year ended 31 December 2014 and paid out.

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

12 ORDINARY SHARES

	Note	**Number of ordinary shares**	**Nominal value of ordinary shares** *(In HK$)*	**Equivalent nominal value of ordinary shares** *(In RMB)*
At 1 January 2013		1,591,340,000	159,134,000	133,613,000
Issue of shares upon exercise of options	*(a)*	6,914,300	691,430	551,508
Issue of shares in connection with conversion of convertible bonds	*(b)*	97,187,500	9,718,750	7,732,136
As at 31 December 2013		1,695,441,800	169,544,180	141,896,644
As at 1 January 2014		1,695,441,800	169,544,180	141,896,644
Issue of shares upon exercise of options	*(a)*	948,800	94,880	74,860
As at 31 December 2014		1,696,390,600	169,639,060	141,971,504

(a) During the year ended 31 December 2014, a total of 948,800 ordinary shares (2013: 6,914,300 ordinary shares) 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 year ended 31 December 2013, a total of 97,187,500 ordinary shares were issued upon the request for conversion by the bondholders at the conversion price of HK$2.4 per share. The ordinary shares issued have the same rights as the other shares in issue.

13 BUSINESS COMBINATION

(a) Acquisition of US coating business

The Group acquired a business relating to coating of the interior of pipes located in Texas, the United States of America (the "US") on 26 March 2014. As part of the business acquisition, the Company, through its wholly owned subsidiary in the US, Hilong USA Holding Corp., acquired a 100% equity interest in Texas Internal Pipe Coating, LLC ("**TIPC**"). In addition, the Group also acquired the 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 RMB43,405,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the US Coating Business. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

	RMB'000
Consideration:	
Total cash consideration	57,329
Total consideration	**57,329**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	33,730
Inventories	867
Deferred income tax liabilities	(2,755)
Trade and other payables	(17,918)
Total identifiable net assets	**13,924**
Goodwill	43,405
	57,329

The revenue included in the consolidated income statement since the acquisition contributed by the US Coating Business was RMB63,116,000. US Coating Business also contributed profit of RMB13,123,000 over the same period.

Had the US Coating Business been consolidated from 1 January 2014, the consolidated income statement of the Group would have showed a pro-forma revenue of RMB2,587,220,000 and a profit attributable to the equity owners of the Company of RMB399,316,000.

(b) Acquisition of Russia Coating Business

The Group originally held a 56% equity interest in Hilong Temerso, a provider of coating services. Hilong Group acquired an additional 44% equity interest in Hilong Temerso from Kamelon LLC and obtained the control of Hilong Temerso on 1 December 2014. After the acquisition, the Group's effective equity interest in Hilong Temerso increased from 56% to 100%. In addition, the Group also acquired a 100% equity interest in Technomash LLC which was also owned by Kamelon LLC.

As a result of the acquisition, the Group is expected to increase its presence in the Russia market. It also expects to reduce cost through economies of scale. The goodwill of RMB44,477,000 arising from the acquisition is attributable to economies of scale expected from combining the operations of the Group and the Russia Coating Business. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

	RMB'000
Consideration:	
Total consideration transferred (i)	33,216
Fair value of equity interest held before the business combination	21,835
Total consideration	**55,051**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	41,838
Inventories	5,351
Trade and other receivables	3,939
Cash and cash equivalents	709
Trade and other payables	(41,986)
Deferred income tax assets	4,755
Deferred income tax liabilities	(4,032)
Total identifiable net assets	**10,574**
Goodwill	44,477
	55,051

(i) Total consideration transferred

Part of the consideration included cash consideration of RMB11,676,000. The remaining portion of the consideration was in the form of a waiver of a receivable of RMB21,540,000 due from the selling shareholder.

The Group recognized a gain of RMB5,909,000 as a result of measuring at fair value of its 56% equity interest in Hilong Temerso held before the business combination. The gain is included in "other income" in the consolidated income statement for the year ended 31 December 2014. As at 31 December 2014, the unpaid cash consideration due to Kamelon LLC amounted to RMB1,227,000.

The revenue included in the consolidated income statement since the acquisition contributed by Russia Coating Business was RMB1,223,000. It also contributed profit of RMB260,000 over the same period.

Had Russia Coating Business been consolidated from 1 January 2014, the consolidated income statement of the Group would have showed a pro-forma revenue of RMB2,590,073,000 and a profit attributable to the equity owners of the Company of RMB386,559,000.

Subsequent to the completion of the acquisition, Hilong Temerso's legal name was changed to Hilong Yekaterinburg Co., Ltd.

(c) Acquisition of Nantong Hilong

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

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

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

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

The Group recognized a gain of RMB1,945,000 as a result of measuring at fair value its 41% equity interest in Nantong Hilong held before the business combination. The gain is included in "other income" in the consolidated income statement for the year ended 31 December 2013. As of 31 December 2013, the unpaid cash consideration due to Zhongxing Energy Equipment Co., Ltd. amounted to RMB12,248,000. The cash consideration was paid in 2014.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

	Year ended 31 December			
	2014		2013	
	RMB'000	**%**	*RMB'000*	%
Oilfield equipment manufacturing and services				
– Drill pipes	**917,596**	**35.6**	808,580	33.0
– Oil country tubular goods ("**OCTG**") coating services	**276,429**	**10.7**	263,738	10.8
– Drill pipe components	**29,954**	**1.2**	82,981	3.4
– Hardbanding	**16,167**	**0.6**	13,160	0.5
– Others	**30,259**	**1.2**	45,959	1.9
Subtotal	**1,270,405**	**49.3**	1,214,418	49.6
Line pipe technology and services				
– OCTG coating materials	**43,763**	**1.7**	33,092	1.3
– Oil and gas line pipe coating materials	**46,596**	**1.8**	79,927	3.3
– Oil and gas line pipe coating services	**84,701**	**3.3**	239,372	9.8
– Corrosion Resistant Alloy (CRA) lined pipe	**72,413**	**2.8**	12,960	0.5
– Concrete Weighted Coating (CWC) services	**10,995**	**0.4**	–	–
– Pipeline inspection services	**13,176**	**0.5**	–	–
Subtotal	**271,644**	**10.5**	365,351	14.9
Oilfield services	**1,032,239**	**40.1**	872,589	35.5
Offshore engineering services	**1,698**	**0.1**	–	–
Total revenue	**2,575,986**	**100.0**	2,452,358	100.0

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

	Year ended 31 December			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
The PRC	**896,953**	**34.9**	1,219,740	49.7
North and South America	**903,701**	**35.1**	604,049	24.6
Russia, Central Asia and East Europe	**285,460**	**11.1**	240,057	9.8
West Africa	**220,091**	**8.5**	219,947	9.0
Middle East	**152,194**	**5.9**	85,781	3.5
South Asia	**114,000**	**4.4**	61,243	2.5
Others	**3,587**	**0.1**	21,541	0.9
	2,575,986	**100.0**	2,452,358	100.0

Revenue increased by RMB123.6 million, or 5.0%, from RMB2,452.4 million in 2013 to RMB2,576.0 million in 2014. 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 line pipe technology and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB56.0 million, or 4.6%, from RMB1,214.4 million in 2013 to RMB1,270.4 million in 2014. Such increase primarily reflected an increase in revenue derived from sales of drill pipes, partially offset by a decrease in revenue derived from sales of drill pipe components.

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

	Year ended 31 December	
	2014	2013
Sales of drill pipes		
– International market		
– volume *(tons)*	**24,101**	13,665
– unit price *(RMB/ton)*	**23,745**	23,402
Subtotal *(RMB'000)*	**572,279**	319,777
– The PRC market		
– volume *(tons)*	**15,397**	20,997
– unit price *(RMB/ton)*	**22,427**	23,280
Subtotal *(RMB'000)*	**345,317**	488,803
Total *(RMB'000)*	**917,596**	808,580

Revenue from sales of drill pipes in the international market increased by RMB252.5 million, or 79.0%, from RMB319.8 million in 2013 to RMB572.3 million in 2014. The increase reflected a 76.4% increase in the volume of drill pipes sold from 13,665 tonnes in 2013 to 24,101 tonnes in 2014, 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, especially in the North and South America market.

Revenue from sales of drill pipes in the PRC market decreased by RMB143.5 million, or 29.4%, from RMB488.8 million in 2013 to RMB345.3 million in 2014. The decrease reflected a 26.7% decrease in volume of drill pipes sold in the PRC market from 20,997 tonnes in 2013 to 15,397 tonnes in 2014 and, to a lesser extent, a 3.7% decrease in average selling price sold in the PRC market from RMB23,280 per tonne in 2013 to RMB22,427 per tonne in 2014. The decrease in the sales volume primarily reflected less oil and gas exploration and production activities in 2014 in the PRC market. The decrease in average selling price primarily reflected the fact that steel prices decreased in 2014 compared to that in 2013.

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 2014, offset by (ii) increase in revenue from OCTG coating services in the international market due to revenue contributed by our new plants in North America.

Revenue from sales of drill pipe components decreased by RMB53.0 million, from RMB83.0 million in 2013 to RMB30.0 million in 2014. The decrease primarily reflected the fact that the Group sold several batches of tool joints and pipes to certain customers in the international market in 2013, while we did not receive similar orders in 2014.

Line pipe technology and services. Revenue from the line pipe technology and services segment decreased by RMB93.8 million, or 25.6%, from RMB365.4 million in 2013 to RMB271.6 million in 2014. Such decrease primarily reflected a decrease in the revenue derived from oil and gas line pipe coating services and materials, partially offset by an increase in the revenue derived from CRA lined pipe.

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

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

Oilfield services. Revenue from the oilfield services segment increased by RMB159.6 million from RMB872.6 million in 2013 to RMB1,032.2 million in 2014. Such increase was 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 in 2014 as compared to that in 2013.

Offshore engineering services. Newly established in 2014, the offshore engineering services segment focuses on providing offshore pipe laying and lifting and installation services, as well as providing offshore engineering design services. Revenue from the offshore engineering services segment in 2014 represented the revenue from certain offshore engineering design services.

Cost of Sales/Services

Cost of sales increased by RMB91.0 million, or 6.2%, from RMB1,464.4 million in 2013 to RMB1,555.4 million in 2014. Such increase primarily reflected an increase in cost of oilfield services segment and oilfield equipment manufacturing and 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 increased by RMB32.6 million, or 3.3%, from RMB988.0 million in 2013 to RMB1,020.6 million in 2014. Gross margin remained stable in 2014, reflecting the decrease in gross margin from oilfield equipment manufacturing and services segment and oilfield services segment, offset by increase in gross margin from line pipe technology and services segment.

Gross margin of oilfield equipment manufacturing and services segment decreased from 47.0% in 2013 to 45.3% in 2014, primarily reflecting that certain OCTG coating plants were in their ramp up stage in 2014.

Gross margin of oilfield services segment decreased from 36.5% in 2013 to 34.6% in 2014, reflecting 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.

Gross margin of line pipe technology and services segment increased from 27.1% in 2013 to 32.3% in 2014, reflecting (i) higher gross margin of oil and gas line pipe coating services as a result of engagement in complex and large-scale projects in 2014, 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 RMB32.9 million, or 31.0%, from RMB105.9 million in 2013 to RMB138.8 million in 2014, 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 RMB51.9 million, or 18.5%, from RMB279.6 million in 2013 to RMB331.5 million in 2014. Such increase primarily reflected (i) an accretion of administrative expenses incurred in subsidiaries set-up or acquired by the Group since late 2013, including offshore engineering services segment and US coating business, (ii) an increase in staff costs and office expenses incurred in connection with the expansion of oilfield services business, and (iii) the Group provided RMB5.8 million specific provision for impairment of certain receivables in 2014.

Other Losses – net

The Group recognized net loss of RMB100.2 million in 2013 and RMB20.5 million in 2014. The net loss recognized in 2014 primarily reflected a net loss of RMB41.8 million in foreign exchange, partially offset by RMB16.7 million in government grants in relation to new and high-technology projects. The net loss recognized in 2013 primarily reflected (i) a loss of RMB74.0 million in changes in fair value of the embedded derivative of the convertible bonds, and (ii) a net loss of RMB41.5 million in foreign exchange losses, partially offset by RMB14.4 million in government grants in relation to new and high-technology projects.

Finance Costs – net

Finance costs – net increased by RMB14.2 million, or 22.7%, from RMB62.8 million in 2013 to RMB77.0 million in 2014. Such increase primarily reflected the increase of interest expense from bank borrowings due to increase in bank borrowings in 2014, partially offset by the decrease in interest in relation to the liability component of the 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 RMB442.2 million in 2013 to RMB461.7 million in 2014.

Income Tax Expense

The Group recognized income tax expense of RMB71.7 million in 2013 and RMB46.5 million in 2014. Effective tax rate was approximately 16.2% in 2013 and 10.1% in 2014. 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 2013.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company increased from RMB344.6 million in 2013 to RMB397.7 million in 2014.

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 similar titled measures utilized by other companies since such other companies may not calculate such measures 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 2014 and 2013 to the nearest measures prepared in accordance with HKFRS:

	Year ended 31 December 2014				
	As Reported *RMB'000*	**Share-based compensation** *RMB'000*	**Changes in fair value of the embedded derivative of the convertible bonds** ***(a)*** *RMB'000*	**Fair value losses on swap** ***(b)*** *RMB'000*	**Non-GAAP** *RMB'000*
Operating profit	**535,792**	**14,686**	**–**	**658**	**551,136**
Profit before income tax	**461,709**	**14,686**	**–**	**658**	**477,053**
Profit attributable to equity owners of the Company	**397,692**	**14,686**	**–**	**658**	**413,036**
Basic earnings per share from operations attributable to equity owners of the Company *(in RMB per share)*	**0.2345**				**0.2435**

	Year ended 31 December 2013				
	As Reported	Share-based compensation	Changes in fair value of the embedded derivative of the convertible bonds *(a)*	Fair value losses on swap *(b)*	Non-GAAP
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating profit	504,194	3,539	73,960	2,984	584,677
Profit before income tax	442,205	3,539	73,960	2,984	522,688
Profit attributable to equity owners of the Company	344,630	3,539	73,960	2,984	425,113
Basic earnings per share from operations attributable to equity owners of the Company *(in RMB per share)*	0.2073				0.2557

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 as at 31 December 2013.

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

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

Inventories

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Inventory	**840,540**	737,725
Turnover days of inventory (in days)[(1)]	**185**	165

(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 2013 and 2014. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase in inventory turnover days from 165 days as at 31 December 2013 to 185 days as at 31 December 2014 primarily reflected an increase in inventory balance associated with (i) an accretion of inventory balances of subsidiaries acquired by the Group in 2014, (ii) increase in finished drill pipes for oilfield equipment manufacturing and services segment due to revenue from overseas branches increased in 2014, (iii) an increase of inventory for oilfield service segment due to more drill rigs were on-site in 2014, and (iv) an increase of inventory for offshore engineering services segment which was newly established in 2014.

Trade and Other Receivables

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables		
– Due from third parties	**1,492,739**	1,159,957
– Due from related parties	**68,052**	30,821
– Less: Provision for impairment of receivables	**(25,793)**	(20,000)
Trade receivables-net	**1,534,998**	1,170,778
Other receivables		
– Due from third parties	**78,269**	88,403
– Due from related parties	**88,363**	39,999
Other receivables	**166,632**	128,402
Bills receivable	**70,397**	105,781
Prepayments	**105,589**	128,802
Dividend receivables	**1,550**	648
Total	**1,879,166**	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 party and related parties as at the dates indicated and turnover days of the net trade receivables as at the dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**1,012,791**	804,505
– Over 90 days and within 180 days	**187,679**	121,358
– Over 180 days and within 360 days	**129,314**	115,478
– Over 360 days and within 720 days	**168,441**	91,221
– Over 720 days	**62,566**	58,216
	1,560,791	1,190,778
Turnover days of trade receivables, net[(1)]	**192**	165

(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 2013 and 2014. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

As at 31 December 2014, trade receivables of RMB522.2 million, representing 33.5% of the Group's trade receivables before impairment, remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from subsidiaries' related party entities. As at the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

The increase in turnover days of trade receivables from 165 days as at 31 December 2013 to 192 days as at 31 December 2014 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the PRC market was less active and slowed down in 2014.

Trade and Other Payables

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Bills payable	**128,776**	142,126
Trade payables		
– Due to related parties	**–**	1,247
– Due to third parties	**560,352**	339,710
Other payables		
– Due to related parties	**48,624**	–
– Due to third parties	**86,494**	73,828
Staff salaries and welfare payables	**37,122**	29,489
Advance from customers	**25,533**	24,290
Interest payables	**1,096**	2,798
Accrued taxes other than income tax	**42,145**	24,691
Dividends payable	**1,463**	11,857
Other liabilities	**10,845**	11,212
	942,450	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 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**485,303**	310,169
– Over 90 days and within 180 days	**52,707**	7,043
– Over 180 days and within 360 days	**20,440**	2,560
– Over 360 days and within 720 days	**463**	19,477
– Over 720 days	**1,439**	1,708
	560,352	340,957
Turnover days of trade payables(1)	**106**	76

(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 2013 and 2014. Average trade payables equal balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2013 to 31 December 2014 reflected (i) the procurement of the pipe-laying vessel, (ii) the increase of payables related OCTG trading and related services in oilfield services segment, and (iii) the centralizing of procurement activities to group level which increase our bargaining power and enable us to get better payment terms from suppliers.

Business Review

In 2014, Hilong encountered multiple challenges from both domestic and international markets, among which the slide of international oil price, the adjustments in domestic market and the fluctuation of foreign exchange rate of certain currencies have brought a big impact on the Company's operation. On the other side, the Company launched several new businesses in 2014, which stored continuous growth impetus for future development despite the fact that corresponding upfront expenses have incurred during the year. However, Hilong still maintained steady operation and achieved satisfactory operational results in the last year. In 2014, the Company recorded a total revenue of RMB2,576 million, which indicated a 5% growth as compared to that of 2013. The net profit attributable to equity owners of the Company increased by 15% to RMB398 million. The Non-GAAP net profit attributable to equity owners of the Company, which reflected the actual operational results, amounted to RMB413 million and remained in line with that of 2013.

In order to achieve higher operating efficiency, the Company restructured its existing business segments. 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 coating materials, line pipe coating services, CRA lined pipe, CWC services and line pipe inspection services. Meanwhile, the Company also achieved breakthrough in the aspect of developing new business and expanding into new markets, in particular, the Company has successfully marched into offshore engineering services area through the establishment of offshore engineering services segment. While focusing on the specialized operation, Hilong is also committed to improving profitability and anti-risk capability through maintaining a moderately diversified business portfolio, which will lay a solid foundation for the Company's development in the new stage and under the new market environment.

Oilfield Equipment Manufacturing and Services

The new oilfield equipment manufacturing and services segment was established through the merging of the original drill pipe and related products business and OCTG coating services business. This segment achieved a total revenue of RMB1,270 million in 2014, representing a slight growth as compared to 2013. Within the segment, revenue generated by the drill pipe and related products business amounted to RMB994 million, reflecting a slight increase over 2013. Hilong continued to maintain a leading and stable market position in domestic market and also achieved a significant breakthrough in overseas sales for its drill pipe products. In 2014, sales of drill pipe products in international markets increased significantly by 79% to RMB572 million and contributed 62% of Hilong's total drill pipe sales across the global markets. Hilong's drill pipe products have received recognition from more customers in the international markets and the Company will be able to obtain more global market shares in the future. Amongst our products composition, the percentage of revenue generated from high-end non-API drill pipes remained stable. The orders for certain existing premium products such as sour-service drill pipe, slip-protected drill pipe and non-slip-crush drill pipe were substantially increased as compared to 2013. Development of new products also saw notable progress. A number of new non-API drill pipe products including gas seal drill pipe and efficient cuttings bed clean drill pipe were successfully developed and highly appreciated and widely recognized by the customers during the market promotion process.

The OCTG coating services business realized a total revenue of RMB276 million in 2014, which was more or less the same as compared to 2013. During the year, Hilong made further efforts in accelerating capacity expansion worldwide and successfully acquired Texas Internal Pipe Coating LLC ("**TIPC**") in US and Hilong Temerso Co., Ltd. ("Hilong Temerso")[(1)] in Russia. These two acquisitions significantly expanded Hilong's capacity for OCTG coating services and further strengthened the Company's international competitiveness in this business area. Representing Hilong's another successful expansion in North America, the acquisition of TIPC will enhance the market influence of Hilong brand in this region from all respects and help Hilong to promote the application of its advanced powder-based coating materials and the matching coating process in the industry and in China, in particular. The acquisition of the OCTG coating service plant in Russia will enable the Company to better integrate the resources in the local market and thus improve the operational efficiency.

Line Pipe Technology and Services

The line pipe technology and services segment is composed of coating materials, line pipe coating services, CRA, CWC and line pipe inspection services after the business segment reorganization. The Company faced with severe challenges for the operation of this segment in 2014. As compared to 2013, the total revenue from this segment for 2014 decreased 26% to RMB272 million. In domestic market, the suspension of most of the line pipe construction projects resulted in the scarcity of the number of traditional line pipe coating service projects in China and further resulted in declined demand for line pipe coating materials and services in domestic market. Considering the uncertain outlook for this business segment in domestic market in the near term, Hilong continued to make great efforts in expanding the overseas markets in 2014 in order to seek new revenue sources and growth impetus for traditional line pipe coating services. In 2014, Hilong was involved in several international line pipe coating services projects including the APA Group project from Australia and achieved remarkable progress in overseas market expansion. Although the newly developed CRA and CWC businesses were still at the early stage of operation and have not reached large-scale production, Hilong has already obtained several contracts from major domestic and international customers in 2014, including the 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 the CWC contract in relation to the APA Group project in Australia jointly with Baosteel. Hilong's performance in these projects gained wide recognition from customers. The line pipe inspection services business has seen a promising momentum of development since its launch in 2014 and successively won the internal inspection service projects for onshore natural gas pipelines from CNPC and offshore natural gas pipelines from CNOOC Limited ("**CNOOC**") with Hilong's performance widely appraised by the customers. The above achievements enabled Hilong to establish the first-mover advantage while further extend and improve the value chain for line pipe services at the same time, which will contribute to building up the track record and customer base for Hilong to evolve into a one-stop solution provider of line pipe services in the future.

(1) The OCTG coating plant in Russia was renamed to Hilong-Yekaterinburg LLC after the acquisition.

Oilfield Services

The overall operation of oilfield services segment has been very stable in 2014. During the reporting period, the segment realized a total revenue of RMB1,032 million, indicating a growth of 18%. The growth mainly derived from the increased day-rate revenue generated by the new drilling rigs and the development of comprehensive services. The increased day-rate revenue was primarily attributable to the high-end equipment that were newly put into operation, such as HL-27, the 3,000HP high temperature high pressure drilling rig providing drilling services for Shell in Nigeria since 2014, and the two rigs that started operation in the second half of 2013 in Pakistan. As the first 3,000HP drilling rig operated by Hilong, HL-27 has been under smooth operation since its commencement of service and the outstanding performance of the drilling team has been highly recognized by the customer. This further reinforced Hilong's leading market position in the most high-end onshore drilling service field and is expected to bring more precious opportunities for Hilong to cooperate with international top-tier customers. During the same period, the comprehensive services also recorded steady development. The OCTG trading and related services achieved remarkable growth, recording a 50% increase in revenue as compared to 2013. It is expected that the OCTG trading and related services business will grow into one of the stable revenue sources for the oilfield services segment in the future. With teams for comprehensive services including mud engineering service already formed, Hilong will soon launch a number of comprehensive services and further expand the business horizon of its oilfield services segment.

Offshore Engineering Services

As Hilong's newly established business segment in 2014, the offshore engineering services segment focuses on providing offshore pipe-laying service as well as offshore lifting and installation service at the initial stage with the operation of the offshore pipe-laying derrick vessel Hilong 106 as a starting point, complemented with offshore engineering design service. Several key preparatory works before launching the operation of this segment including establishing the relevant entities, setting up the operational system, obtaining the certificates and qualifications required for operation and forming the core team were all completed in 2014. The renovation and modification of Hilong 106 was also finished as at the date of this announcement. In relation to market development, Hilong has successfully won two major EPCI[(1)] service contracts from CNOOC and will utilize Hilong 106 to build the offshore line pipes for CNOOC's Weizhou Phase II Project and East China Sea Project, respectively. The total contract value for these two projects amounted to approximately RMB550 million. Winning the two major contracts indicated that Hilong has already gained recognition from the premium domestic clients in this field represented by CNOOC and set a good beginning for the comprehensive launch of Hilong's offshore engineering services business in 2015. Hilong thus has become the first domestic private company in the offshore engineering services industry that won such large-scale EPCI service contracts.

The Company recruited international top talents and established an elite team for the offshore engineering design service business, which primarily provides technical support for Hilong's offshore engineering services business but also offers design consulting services to external customers. Leveraging on its advanced technical strength, the team contributed to Hilong's

(1) EPCI services include engineering, procurement, construction and installation.

winning of the aforementioned two EPCI service contracts from CNOOC through provision of strong technical support and will be fully involved in the implementation of the contracts, focusing on the areas including designing construction program and guiding field operation. In the meantime, the team also obtained several external contracts in 2014 with its design proposals widely appraised by the customers. The team also entered into a cooperation agreement with a customer to provide independent third-party technical consultation. The above fully reflected the value generated by the offshore engineering design service team both internally and externally.

Research and Development

Hilong's research and development ("**R&D**") work also made tremendous accomplishments in 2014. During the year, the R&D team for drilling tools carried out multiple R&D projects including new products development and continuous technological improvement and obtained 14 patents. These projects mainly targeted to develop new drilling tools applicable to complicated geological conditions. Hilong accelerated the R&D work for new products such as special offshore pipes, coating materials used on offshore vessels and coating materials for offshore engineering purposes, and will strive to realize production of the relevant products soon.

Looking back 2014, Hilong maintained stable operation while firmly executed the established development strategy and achieved satisfactory results under volatile market environment. During the year, the Company followed the development philosophy of integrating products with services, reorganized the existing business and gradually moved up to the higher-end of the value chain. The overseas expansion also harvested breakthrough including successful acceleration of capacity expansion and market exploration worldwide. Above all, Hilong made a successful debut in the offshore engineering services field in 2014 and opened a new chapter of marching into the offshore business field from the onshore business area.

Prospects

In 2015, Hilong will still be confronted with complicated and unfavorable market conditions. In particular, the international oil price which still lingers around at low levels will possibly cause certain customers to adjust their capital expenditure plans and eventually impact the demand for Hilong's products and services and bring continuous pressure on the Company's operation. On the other hand, the year of 2015 will also be the first year in which Hilong will be expecting initial results after making adjustments to its business strategy. Looking into 2015, Hilong is confident that it could maintain stable operation for its existing business while expecting its new businesses led by the offshore engineering services to bring new growth drivers for the Company.

Hilong will continue to make more efforts to improve the sales of drill pipe products in overseas markets and reinforce Hilong brand's international influence. On the other hand, the Company will devote more resources to promote the sales of non-API drill pipe and related services with high added value. The OCTG coating services will see new development opportunities after the adjustment of capacity. It is expected that the newly acquired TIPC will contribute full-year revenue in 2015 while its advanced technology and strong profitability will lead the overall growth of Hilong's OCTG coating services business. Meanwhile, the

Company plans to strengthen the cooperation between TIPC and the OCTG coating service plant in Canada and further bolster Hilong's market position in North America. The Company recently completed the acquisition of the OCTG coating service plant in Russia at the end of 2014 and will soon launch internal integration and other works, targeting to achieve the improvement of operation in 2015.

Hilong will embrace new development opportunities for line pipe coating services business in 2015. Certain construction projects for oil and gas line pipes in China will be resumed in 2015 while some major international projects are also expected to expedite construction in 2015, which will all constitute potential business for line pipe coating services. As a result, sales of line pipe coating materials is also expected to be boosted. Going forward, Hilong will give equal attention to both domestic and international markets, balance the market risks through diversification of projects and customers and aim to improve Hilong's international competitiveness in this field. Hilong has already gained the relevant CRA and CWC contracts attached to the offshore pipe-laying service contract for the East China Sea Project, which generated synergies between Hilong's different business segments and set a good start for Hilong to grow into an integrated offshore engineering services provider. The Company will continue to expand the market for its CRA and CWC business, particularly the overseas markets. Hilong will also focus resources to promote the large-scale operation of CRA and CWC, enhance the profitability through improving production efficiency and develop these two businesses into the new drivers leading segment's growth in the future. In the meantime, the Company will accelerate the development of line pipe inspection services, make further efforts in market exploration and strengthen its market position by fully utilizing the time advantage and market opportunities.

The oilfield services segment will be expected to continue to maintain steady development. In addition to maintaining stable operation of the existing rigs, Hilong will keep exploring new market opportunities and improve the operational efficiency of the existing projects. The Company will also increase the proportion of comprehensive services, expand the scope of services and enhance its capability of providing integrated services. Moreover, Hilong will continue to strive to cooperate with international renowned customers and is devoted to building high-end brand positioning for its oilfield services.

The offshore pipe-laying derrick vessel Hilong 106 will soon commence its offshore pipe-laying work for CNOOC's Weizhou Phase II Project and East China Sea Project in the first half of 2015. As Hilong's most outstanding achievement in 2015, it is expected that these two major contracts will inject impetus for continuous growth in times of adversity, bring new revenue sources and effectively improve the Company's risk-resistance ability. Meanwhile, the Company is actively looking for other potential opportunities and strives to win more contracts for Hilong 106 within the year. The offshore engineering design service team will also speed up its development in 2015. Hilong is confident to seize the first-mover advantage and achieve new heights in the new business field of offshore engineering services.

Looking ahead into 2015, we firmly believe that, Hilong will continue to generate substantial returns for the shareholders with our endeavors.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Net cash from operating activities	**260,734**	174,022
Net cash used in investing activities	**(1,319,978)**	(500,661)
Net cash from financing activities	**1,213,254**	322,683
Net increase/(decrease) in cash and cash equivalents	**154,010**	(3,956)
Exchange gains/(losses) on cash and cash equivalents	**3,158**	(9,117)
Cash and cash equivalents at beginning of the year	**390,889**	403,962
Cash and cash equivalents at end of the year	**548,057**	390,889

Operating Activities

Net cash from operating activities in 2014 was RMB260.7 million, representing cash generated from operations of RMB442.2 million, partially offset by the interest payment of RMB89.2 million and income tax payment of RMB92.2 million.

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

Investing Activities

Net cash used in investing activities in 2014 was RMB1,320.0 million, primarily reflecting payment of RMB1,239.2 million for purchases of property, plant and equipment, and payment of RMB79.3 million for acquisition of subsidiaries, net of cash acquired.

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

Financing Activities

Net cash generated from financing activities in 2014 was RMB1,213.3 million, primarily reflecting proceeds of RMB2,038.5 million from borrowings, offset by (i) repayment of borrowings of RMB715.5 million, and (ii) dividends payment of RMB103.9 million.

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

Capital Expenditures

Capital expenditures were RMB519.5 million and RMB1,296.4 million in 2013 and 2014 respectively. The increase in capital expenditures in 2014 primarily reflected the procurement of pipe-laying vessel for the offshore engineering services segment, partially offset by the decrease of capital expenditures made in connection with purchase of drilling rigs for oilfield services segment.

Indebtedness

As at 31 December 2014, the outstanding indebtedness of RMB2,462.6 million was mainly denominated in USD, RMB and HKD. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – secured	**–**	22,000
Bank borrowings – unsecured	**1,891,464**	484,676
Less: Current portion of non-current borrowings	**(261,503)**	–
	1,629,961	506,676
Current		
Bank borrowings – secured	**22,028**	140,694
Bank borrowings – unsecured	**549,081**	513,310
Current portion of non-current borrowing	**261,503**	–
	832,612	654,004
	2,462,573	1,160,680

The bank borrowings of RMB22.0 million were secured by certain bank deposits of the Group, with a carrying amount of RMB32.5 million as at 31 December 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 31 December 2014 and 2013 are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Total borrowings	**2,462,573**	1,160,680
Less: Cash and cash equivalents	**(548,057)**	(390,889)
Net debt	**1,914,516**	769,791
Total equity	**3,143,249**	2,873,587
Total capital	**5,057,765**	3,643,378
Gearing ratio	**37.85%**	21.13%

The increase in the gearing ratio as at 31 December 2014 when compared to the gearing ratio as at 31 December 2013 resulted primarily from the increase in the balance of borrowings in 2014.

Foreign Exchange

The Group mainly operates in the PRC, and also has network in various countries and regions around the world. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("**USD**"). Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 26.1% appreciation of RMB against the USD from 21 July 2005 to 31 December 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 37.7% and 47.9% of the total revenue of the Company in 2013 and 2014, respectively.

Business Combination

Acquisition of US coating business

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.

Acquisition of Russia Coating Business

The Group originally held a 56% equity interest in Hilong Temerso, a provider of coating services in Russia. The Group acquired an additional 44% equity interest in Hilong Temerso from Kamelon LLC and obtained the control of Hilong Temerso on 1 December 2014. After the acquisition, the Group's effective equity interest in Hilong Temerso increased from 56% to 100%. In addition, the Group also acquired a 100% equity interest in Technomash LLC which is under the common control of Kamelon LLC.

Subsequent to the completion of the acquisition, Hilong Temerso's legal name was changed to Hilong-Yekaterinburg LLC.

Staff and Remuneration Policy

As at 31 December 2014, the total number of full-time employees employed by the Group was 2,658 (31 December 2013: 2,117). The following table sets forth the number of the Group's fulltime employees by area of responsibility as at 31 December 2014:

On-site workers	1,714
Administrative	402
Research and development	163
Engineering and technical support	249
Company management	42
Sales, marketing and after-sales services	88
	2,658

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 was exercised.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the "Corporate Governance Code and Corporate Governance Report" (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 year ended 31 December 2014, 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 are both performed by Mr. Zhang Jun. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company.

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 of all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2014.

REVIEW OF ANNUAL 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 annual results for the year ended 31 December 2014 before the results were submitted to the Board for approval.

The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2014 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

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 year ended 31 December 2014.

DIVIDENDS

The Board resolved to recommend the payment of a final dividend of HK5.0 cents per share (2013: HK7.7 cents per share), amounting to approximately HK$84.8 million (equivalent to approximately RMB66.9 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2014, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "**AGM**"). Upon approval of the shareholders at the AGM, the proposed final dividend will be paid on Wednesday, 15 July 2015 to the shareholders of the Company whose names appear on the register of members of the Company as at Tuesday, 7 July 2015.

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 24 June 2015 to Friday, 26 June 2015, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 23 June 2015.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 3 July 2015 to Tuesday, 7 July 2015, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 2 July 2015.

PUBLICATION OF ANNUAL RESULTS

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

The annual report for the year ended 31 December 2014 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

20 March 2015

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. LEE Siang Chin and Mr. LIU Haisheng.