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 2015

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,484.3 million, representing a decrease of approximately 3.6% as compared with 2014.
- Gross profit was approximately RMB809.9 million, representing a decrease of approximately 20.6% as compared with 2014. Gross profit margin decreased from 39.6% in 2014 to 32.6% in 2015.
- Profit attributable to equity owners of the Company was approximately RMB161.0 million, representing a decrease of approximately 59.5% as compared with 2014.
- Basic earnings per share was approximately RMB0.0949, representing a decrease of 59.5% as compared with 2014.
- As of 31 December 2015, the Group's total cash and cash equivalents rose by 49.9% to RMB821.4 million.
- The Board resolved to recommend a final dividend of HK2.0 cents per share for the year ended 31 December 2015, 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 2015 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

	Note	**Year ended 31 December** **2015** *RMB'000*	2014 *RMB'000*
Revenue	*3*	**2,484,329**	2,575,986
Cost of sales		**(1,674,423)**	(1,555,407)
Gross profit		**809,906**	1,020,579
Selling and marketing expenses		**(109,181)**	(138,755)
Administrative expenses		**(372,813)**	(331,469)
Other income	*6*	**–**	5,909
Other gains/(losses) – net	*7*	**96,609**	(20,472)
Operating profit		**424,521**	535,792
Finance income		**9,169**	13,068
Finance costs		**(238,693)**	(90,098)
Finance costs – net	*8*	**(229,524)**	(77,030)
Share of profit of investments accounted for using equity method		**4,357**	2,947
Profit before income tax		**199,354**	461,709
Income tax expense	*9*	**(25,243)**	(46,535)
Profit for the year		**174,111**	415,174
Profit attributable to:			
Equity owners of the Company		**160,983**	397,692
Non-controlling interests		**13,128**	17,482
		174,111	415,174
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*10*	**0.0949**	0.2345
Diluted earnings per share	*10*	**0.0949**	0.2329
Dividends	*11*	**28,426**	66,914

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Profit for the year	**174,111**	415,174
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**1,364**	(42,761)
Other comprehensive income/(loss) for the year, net of tax	**1,364**	(42,761)
Total comprehensive income for the year	**175,475**	372,413
Attributable to:		
Equity owners of the Company	**162,347**	354,931
Non-controlling interests	**13,128**	17,482
	175,475	372,413

CONSOLIDATED BALANCE SHEET
As at 31 December 2015

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**3,037,789**	2,856,379
Lease prepayments		**90,694**	92,821
Intangible assets		**156,355**	159,377
Investments accounted for using equity method		**59,221**	56,660
Deferred income tax assets		**131,144**	109,355
Other long-term assets		**1,563**	799
		3,476,766	3,275,391
Current assets			
Inventories		**804,194**	840,540
Trade and other receivables	*4*	**1,857,619**	1,879,166
Current income tax recoverable		**32,588**	–
Restricted cash		**71,868**	83,861
Cash and cash equivalents		**821,364**	548,057
		3,587,633	3,351,624
Total assets		**7,064,399**	6,627,015
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*12*	**141,976**	141,972
Other reserves		**1,127,528**	1,117,187
Currency translation differences		**(117,445)**	(118,809)
Retained earnings		**1,869,990**	1,778,090
		3,022,049	2,918,440
Non-controlling interests		**234,087**	224,809
Total equity		**3,256,136**	3,143,249

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**1,084,464**	1,629,961
Deferred income tax liabilities		**45,193**	44,448
Derivative financial instruments		**–**	2,406
Deferred revenue		**23,171**	23,578
		1,152,828	1,700,393
Current liabilities			
Trade and other payables	*5*	**1,058,234**	942,450
Current income tax liabilities		**3,625**	6,953
Borrowings		**1,592,448**	832,612
Derivative financial instruments		**1,006**	1,236
Deferred revenue		**122**	122
		2,655,435	1,783,373
Total liabilities		**3,808,263**	3,483,766
Total equity and liabilities		**7,064,399**	6,627,015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	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 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
As at 1 January 2015	**141,972**	**1,117,187**	**1,778,090**	**(118,809)**	**2,918,440**	**224,809**	**3,143,249**
Comprehensive income							
Profit for the year	**–**	**–**	**160,983**	**–**	**160,983**	**13,128**	**174,111**
Other comprehensive income							
Currency translation differences	**–**	**–**	**–**	**1,364**	**1,364**	**–**	**1,364**
Total comprehensive income for the year	**–**	**–**	**160,983**	**1,364**	**162,347**	**13,128**	**175,475**
Appropriation to statutory reserve	**–**	**2,158**	**(2,158)**	**–**	**–**	**–**	**–**
Transactions with owners							
Pre-IPO share option plan	**–**	**1,254**	**–**	**–**	**1,254**	**–**	**1,254**
2013 Share Option Scheme	**–**	**6,834**	**–**	**–**	**6,834**	**–**	**6,834**
Exercise of share options	**4**	**95**	**–**	**–**	**99**	**–**	**99**
Dividends paid to non-controlling interests of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(3,850)**	**(3,850)**
Dividends in respect of 2014	**–**	**–**	**(66,925)**	**–**	**(66,925)**	**–**	**(66,925)**
As at 31 December 2015	**141,976**	**1,127,528**	**1,869,990**	**(117,445)**	**3,022,049**	**234,087**	**3,256,136**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1 GENERAL INFORMATION OF THE GROUP

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with all applicable HKFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the year ended 31 December 2015.

- Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans.
- Amendments from annual improvements to HKFRSs – 2010–2012 Cycle, on HKFRS 8, "Operating segments", HKAS 16, "Property, plant and equipment", HKAS 38, "Intangible assets" and HKAS 24, "Related party disclosures".
- Amendments from annual improvements to HKFRSs – 2011–2013 Cycle, on HKFRS 3, "Business combinations" and HKFRS 13, "Fair value measurement".

The adoption of these new and amended standards and interpretations has not had any significant effect on the accounting policies or result and financial position of the Group.

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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements.

- HKFRS 14 "Regulatory Deferral Accounts", effective for the accounting period beginning on or after 1 January 2016.
- Amendment to HKFRS 11 "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 "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, "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, "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.
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28, "Investment entities: applying the consolidation exception", effective for the accounting period beginning on or after 1 January 2016.
- Amendments to HKAS 1, "Disclosure initiative", 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 2018.
- HKFRS 9 "Financial Instruments", effective for the accounting period beginning on or after 1 January 2018.

Management is in the process of assessing the impact of the above standards and interpretations 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.

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), share of profit of investments accounted for using equity method and corporate overheads, which is consistent with that in the consolidated financial statements.

The corporate overheads are not considered as the business segment expenses in 2015 (corporate overheads expenses in 2014 were restated) as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

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

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 2015 and 2014 are set out as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Oilfield equipment manufacturing and services	**676,462**	1,270,405
Line pipe technology and services	**295,038**	271,644
Oilfield services	**922,979**	1,032,239
Offshore engineering services	**589,850**	1,698
	2,484,329	2,575,986

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2015 is as follows:

	Year ended 31 December 2015				
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	760,749	439,741	922,979	589,850	2,713,319
Inter-segment sales	(84,287)	(144,703)	–	–	(228,990)
Revenue from external customers	676,462	295,038	922,979	589,850	2,484,329
Results					
Segment gross profit	270,944	92,766	352,023	94,173	809,906
Segment profit	147,309	30,039	225,382	80,164	482,894
Corporate overheads					(58,373)
Operating profit					424,521
Finance income					9,169
Finance costs					(238,693)
Share of profit of investments accounted for using equity method					4,357
Profit before income tax					199,354
Other information					
Depreciation of property, plant and equipment	69,142	12,630	89,781	42,734	214,287
Amortization of lease prepayments	1,223	904	–	–	2,127
Amortization of intangible assets	411	187	11	393	1,002
Capital expenditure	53,245	37,315	120,397	95,534	306,491

	As at 31 December 2015				
Business segment	**Oilfield equipment manufacturing and services** *RMB'000*	**Line pipe technology and services** *RMB'000*	**Oilfield services** *RMB'000*	**Offshore engineering services** *RMB'000*	**Total** *RMB'000*
Segment assets	2,825,012	585,320	2,169,594	1,425,252	7,005,178
Investments accounted for using equity method					59,221
Total assets					7,064,399
Total liabilities	3,017,611	189,609	426,543	174,500	3,808,263

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:

Business segment	Year ended 31 December 2014 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)	318,279	52,884	238,865	(9,598)	600,430
Corporate overheads					(64,638)
Operating profit					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

Business segment	As at 31 December 2014 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

(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 pipes and related products. In Russia and North America, the Group provides coating services. In Central Asia, South Asia, 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	
	2015	2014
	RMB'000	*RMB'000*
The PRC	**1,253,316**	896,953
North and South America	**595,220**	903,701
Africa	**260,487**	220,091
Russia, Central Asia and East Europe	**173,518**	285,460
South Asia	**133,357**	114,000
Middle East	**68,317**	152,194
Others	**114**	3,587
	2,484,329	2,575,986

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

	Carrying amount of segment assets As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
The PRC	**2,100,118**	2,055,470
North and South America	**492,723**	479,842
Africa	**318,813**	217,704
South Asia	**174,119**	123,552
Middle East	**129,774**	127,106
Russia, Central Asia and East Europe	**69,291**	104,903
	3,284,838	3,108,577

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

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
The PRC	**163,475**	1,193,609
Africa	**105,261**	4,408
North and South America	**33,275**	172,366
Russia, Central Asia and East Europe	**2,391**	87,516
Middle East	**1,919**	1,224
South Asia	**170**	685
	306,491	1,459,808

4 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Bills receivable *(a)*	**34,615**	70,397
Trade receivables *(b)*		
– Due from related parties	**38,316**	68,052
– Due from third parties	**1,510,650**	1,492,739
Less: provision for impairment of receivables *(d)*	**(27,237)**	(25,793)
Trade receivables – net	**1,521,729**	1,534,998
Other receivables *(c)*	**164,092**	166,632
Prepayments	**133,837**	105,589
Dividend receivables	**3,346**	1,550
Trade and other receivables – net	**1,857,619**	1,879,166

As at 31 December 2015 and 2014, 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 2015 and 2014, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
– RMB	**898,806**	1,118,743
– USD	**807,771**	502,321
– NGN	**41,702**	38,269
– RUB	**41,273**	26,682
– AED	**29,164**	77,753
– CAD	**20,970**	57,016
– COP	**8,951**	22,755
– PKR	**4,182**	–
– KZT	**2,478**	35,310
– ETB	**1,583**	–
– ALL	**181**	–
– EUR	**148**	–
– HKD	**410**	317
	1,857,619	1,879,166

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

(b) The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2015 and 2014 was as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**725,537**	1,012,791
– Over 90 days and within 180 days	**264,531**	187,679
– Over 180 days and within 360 days	**236,135**	129,314
– Over 360 days and within 720 days	**231,735**	168,441
– Over 720 days	**91,028**	62,566
	1,548,966	1,560,791

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

As at 31 December 2015, trade receivables of RMB27,237,000 (31 December 2014: RMB25,793,000) 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 2015, trade receivables of RMB796,192,000 (31 December 2014: RMB522,207,000) were past due but not impaired. These mainly relate to customers that are state-owned companies in the PRC and overseas countries 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	
	2015	2014
	RMB'000	*RMB'000*
– Over 90 days and within 180 days	**264,531**	187,679
– Over 180 days and within 360 days	**236,135**	129,314
– Over 360 days and within 720 days	**231,735**	168,441
– Over 720 days	**63,791**	36,773
	796,192	522,207

(c) Details of other receivables are as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Due from related parties	**76,348**	88,363
Staff advances	**22,948**	11,847
Deposits	**25,698**	31,631
Value added tax refund	**11,466**	10,044
Others	**27,632**	24,747
	164,092	166,632

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

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**(25,793)**	(20,000)
Additional provision	**(10,483)**	(5,793)
Write off of impairment	**9,039**	–
At the end of the year	**(27,237)**	(25,793)

5 TRADE AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Bills payable	**75,393**	128,776
Trade payables:		
– Due to third parties	**702,395**	560,352
Other payables:		
– Due to related parties	**31,483**	48,624
– Due to third parties	**48,853**	86,494
Staff salaries and welfare payables	**43,022**	37,122
Advances from customers	**70,913**	25,533
Interest payables	**15,286**	1,096
Accrued taxes other than income tax	**53,374**	42,145
Dividends payable	**1,463**	1,463
Other liabilities	**16,052**	10,845
	1,058,234	942,450

As at 31 December 2015 and 2014, 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 2015 and 2014, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
– RMB	**706,646**	736,178
– USD	**291,113**	151,509
– RUB	**21,613**	3,166
– AED	**11,947**	9,449
– NGN	**10,736**	18,497
– PKR	**6,496**	4,868
– ETB	**6,557**	–
– KZT	**1,542**	14,019
– CAD	**1,485**	4,764
– ALL	**86**	–
– HKD	**13**	–
	1,058,234	942,450

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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**537,038**	485,303
– Over 90 days and within 180 days	**101,272**	52,707
– Over 180 days and within 360 days	**62,662**	20,440
– Over 360 days and within 720 days	**1,275**	463
– Over 720 days	**148**	1,439
	702,395	560,352

6 OTHER INCOME

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Gain on remeasuring existing interest in Hilong Temerso Co., Ltd. ("**Hilong Temerso**") *(Note 13)*	**–**	5,909

7 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Government grants	**16,317**	16,735
Gains on disposal of property, plant and equipment – net	**2,909**	2,250
Exchange gains/(losses)	**78,324**	(41,822)
Others	**(941)**	2,365
	96,609	(20,472)

8 FINANCE COSTS – NET

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Finance income:		
– Fair value gains on interest rate swaps and cross currency swaps	**1,474**	1,511
– Fair value gains on foreign exchange forward contracts	**1,162**	–
– Exchange gains	**–**	4,861
– Interest income derived from bank deposits	**6,533**	6,696
	9,169	13,068
Finance cost:		
– Interest expense on bank borrowings	**(136,017)**	(112,268)
Less: interest capitalised	**12,971**	24,339
– Exchange losses	**(115,647)**	–
– Fair value losses on foreign exchange forward contracts	**–**	(1,162)
– Fair value losses on interest rate swaps and cross currency swaps	**–**	(1,007)
	(238,693)	(90,098)
Finance costs – net	**(229,524)**	(77,030)

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Current income tax	**45,357**	91,210
Deferred income tax	**(20,114)**	(44,675)
Income tax expense	**25,243**	46,535

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	
	2015	2014
	RMB'000	*RMB'000*
Profit before tax	**199,354**	461,709
Tax calculated at statutory tax rates applicable to each group entity	**14,784**	66,594
Tax effect of:		
Expenses not deductible for tax purpose	**5,138**	6,688
Reversal of deferred tax liability related to withholding tax on dividends	**–**	(38,436)
Additional deduction for research and development expense (b)	**(4,447)**	(4,374)
Utilisation of previously unrecognised tax losses	**(8,597)**	–
Tax losses of subsidiaries not recognised	**18,365**	16,063
Tax charge	**25,243**	46,535

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 2015 and 2014.

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 2015 (31 December 2014: 20% to 34%).

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

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

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

Pursuant to 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 2015, 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 the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 29 December 2015 and 28 December 2014, all the earnings generated by the Company's PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB2,776,000 (2014: RMB10,521,000) have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2015 and 2014. As at 31 December 2015, deferred income tax liabilities of RMB51,464,000 (31 December 2014: RMB48,688,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,029,280,000 (31 December 2014: 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	
	2015	2014
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%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	25%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	25%

* Shanghai Hilong Drill Pipe Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2015 to 2017.

* Hilong Drill Pipe (Wuxi) Co., Ltd is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2015 to 2017.

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

* Hilong Pipeline Engineering Technology Service Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2015 to 2017.

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

* Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2015 to 2017.

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

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2015 and 2014.

(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 incurred.

10 EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2015	2014
Profit attributable to equity owners of the Company *(RMB'000)*	**160,983**	397,692
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,423**	1,696,203
Basic earnings per share *(RMB per share)*	**0.0949**	0.2345

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 one category of dilutive potential ordinary shares: share options.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 31 December) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 31 December 2015, there were 30,743,900 share options outstanding related to Pre-IPO share option plan. For the year ended 31 December 2015, 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.

As at 31 December 2015, there were 18,060,300 (31 December 2014: 19,563,400) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2015 and 31 December 2014, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

The calculation of the diluted earnings per share for the year ended 31 December 2014 was shown as:

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

11 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 18 March 2016, a final dividend of HKD0.0200 (equivalent to approximately RMB0.0168) per share for the year ended 31 December 2015 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 12 July 2016 to the shareholders of the Company whose names appear on the register of members of the Company as at 5 July 2016. The total amount is estimated to be HKD33,929,000 (equivalent to approximately RMB28,426,000). These financial statements do not reflect this dividend payable.

The dividend in respect of 2014 of HKD0.0500 (equivalent to RMB0.0395) per share, amounted to a total dividend of HKD84,822,000 (equivalent to RMB66,925,000), was approved at the Company's annual general meeting on 26 June 2015. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2015 and paid out.

The dividend in respect of 2013 of HKD0.0770 (equivalent to RMB0.0613) per share, amounted to a total dividend of HKD130,601,000 (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 HKD)***	**Equivalent nominal value of ordinary shares *(In RMB)***
At 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
As at 1 January 2015		1,696,390,600	169,639,060	141,971,504
Issue of shares upon exercise of options	*(a)*	48,000	4,800	4,002
As at 31 December 2015		1,696,438,600	169,643,860	141,975,506

(a) During the year ended 31 December 2015, a total of 48,000 ordinary shares (2014: 948,800 ordinary shares) were issued for cash at an exercise price of HKD2.6 per share as a result of the exercise of share options.

13 BUSINESS COMBINATION

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 recognised 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**
Recognised 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 recognised 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 2015, the unpaid cash consideration due to Kamelon LLC amounted to RMB1,227,000 (31 December 2014: RMB1,227,000).

(a) In 2014, the revenue included in the consolidated income statement since the acquisition contributeds by Russia Coating Business was RMB1,223,000. It also contributed profit of RMB260,000 over the same period.

(b) Had Russia Coating Business been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 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 LLC.

14 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 18 March 2016, a dividend of HKD0.0200 (equivalent to approximately RMB0.0168) per share was proposed.

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			
	2015		2014	
	RMB'000	*%*	*RMB'000*	*%*
Oilfield equipment manufacturing and services				
– Drill pipes	**417,600**	**16.8**	917,596	35.6
– Oil country tubular goods ("**OCTG**") coating services	**218,930**	**8.8**	276,429	10.7
– Drill pipe components	**11,588**	**0.5**	29,954	1.2
– Hardbanding	**9,147**	**0.4**	16,167	0.6
– Others	**19,197**	**0.7**	30,259	1.2
Subtotal	**676,462**	**27.2**	1,270,405	49.3
Line pipe technology and services				
– OCTG coating materials	**40,081**	**1.6**	43,763	1.7
– Oil and gas line pipe coating materials	**88,892**	**3.6**	46,596	1.8
– Oil and gas line pipe coating services	**127,887**	**5.1**	84,701	3.3
– Corrosion Resistant Alloy (CRA) lined pipe	**36,348**	**1.5**	72,413	2.8
– Concrete Weighted Coating (CWC) services	**–**	**–**	10,995	0.4
– Pipeline inspection services	**1,830**	**0.1**	13,176	0.5
Subtotal	**295,038**	**11.9**	271,644	10.5
Oilfield services	**922,979**	**37.2**	1,032,239	40.1
Offshore engineering services	**589,850**	**23.7**	1,698	0.1
Total revenue	**2,484,329**	**100.0**	2,575,986	100.0

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

	Year ended 31 December			
	2015		2014	
	RMB'000	***%***	*RMB'000*	*%*
The PRC	**1,253,316**	**50.4**	896,953	34.9
North and South America	**595,220**	**24.0**	903,701	35.1
Africa	**260,487**	**10.5**	220,091	8.5
Russia, Central Asia and East Europe	**173,518**	**7.0**	285,460	11.1
South Asia	**133,357**	**5.3**	114,000	4.4
Middle East	**68,317**	**2.7**	152,194	5.9
Others	**114**	**0.1**	3,587	0.1
Total	**2,484,329**	**100.0**	2,575,986	100.0

Revenue decreased by RMB91.7 million, or 3.6%, from RMB2,576.0 million in 2014 to RMB2,484.3 million in 2015. Such decrease primarily reflected a decrease in revenue from oilfield equipment manufacturing and services segment, partially offset by an increase in revenue from offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment decreased by RMB593.9 million, or 46.7%, from RMB1,270.4 million in 2014 to RMB676.5 million in 2015. Such decrease primarily reflected a decrease in revenue derived from sales of drill pipes.

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

	Year ended 31 December	
	2015	2014
Sales of drill pipes		
– International market		
– volume *(tons)*	**11,947**	24,101
– unit price *(RMB/ton)*	**21,152**	23,745
Subtotal *(RMB'000)*	**252,711**	572,279
– The PRC market		
– volume *(tons)*	**8,427**	15,397
– unit price *(RMB/ton)*	**19,567**	22,427
Subtotal *(RMB'000)*	**164,889**	345,317
Total *(RMB'000)*	**417,600**	917,596

Revenue from sales of drill pipes in the international market decreased by RMB319.6 million, or 55.8%, from RMB572.3 million in 2014 to RMB252.7 million in 2015. The decrease primarily reflected a 50.4% decrease in the volume of drill pipes sold from 24,101 tonnes in 2014 to 11,947 tonnes in 2015 and, a 10.9% decrease in average selling price sold in the international market from RMB23,745 per tonne in 2014 to RMB21,152 per tonne in 2015. The decrease in the sales volume primarily reflected the delay of capital and operation spending by international oil and gas companies. While the decrease in average selling price primarily reflected the fact that steel prices decreased in 2015 compared to that in 2014.

Revenue from sales of drill pipes in the PRC market decreased by RMB180.4 million, or 52.2%, from RMB345.3 million in 2014 to RMB164.9 million in 2015. The decrease reflected a 45.3% decrease in volume of drill pipes sold in the PRC market from 15,397 tonnes in 2014 to 8,427 tonnes in 2015 and, a 12.8% decrease in average selling price sold in the PRC market from RMB22,427 per tonne in 2014 to RMB19,567 per tonne in 2015. The decrease in the sales volume primarily reflected the delay of capital and operation spending by certain oil and gas companies in the PRC market. While the decrease in average selling price primarily reflected the fact that steel prices decreased in 2015 compared to that in 2014.

Revenue from OCTG coating services decreased by RMB57.5 million, or 20.8%, from RMB276.4 million in 2014 to RMB218.9 million in 2015. The decrease was mainly due to the decreased demands of OCTG coating services in both international market and PRC market as a result of the delay of capital and operation spending by certain international and PRC oil and gas companies in 2015.

Revenue from sales of drill pipe components decreased by RMB18.4 million or 61.3%, from RMB30.0 million in 2014 to RMB11.6 million in 2015. The decrease primarily reflected decrease in customers' demands for tool joints and pipes in 2015 compared with that in 2014.

Line pipe technology and services. Revenue from the line pipe technology and services segment increased by RMB23.4 million, or 8.6%, from RMB271.6 million in 2014 to RMB295.0 million in 2015. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating services and materials, partially offset by a decrease in the revenue derived from CRA lined pipe.

The increase in revenue from oil and gas line pipe coating services and materials primarily reflected higher demand for oil and gas line pipe coating services resulting from the steady resumption of pipe line constructions in the PRC in 2015.

The decrease in revenue from CRA lined pipe and CWC services reflected that our capacities were occupied by inter-segment projects, revenue of which was reflected in revenue from offshore engineering services in 2015.

Oilfield services. Revenue from the oilfield services segment decreased by RMB109.2 million from, or 10.6%, RMB1,032.2 million in 2014 to RMB923.0 million in 2015. Such decrease was attributable to (i) the decrease in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients, and (ii) lower oilfield services revenue generated from Kazakhstan in 2015 as compared to that in 2014.

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 2015 represented the revenue recognised from completion of the two offshore engineering, procurement, construction and installation ("**EPCI**") service contracts with CNOOC.

Cost of Sales/Services

Cost of sales/services increased by RMB119.0 million, or 7.7%, from RMB1,555.4 million in 2014 to RMB1,674.4 million in 2015. Such increase primarily reflected an increase in the cost of offshore engineering services segment, partially offset by a decrease in the cost of oilfield equipment manufacturing and services segment and oilfield services segment.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB210.7 million, or 20.6%, from RMB1,020.6 million in 2014 to RMB809.9 million in 2015. Gross profit margin decreased from 39.6% in 2014 to 32.6% in 2015.

The decrease in gross profit margin primarily reflected (i) higher portion of revenue derived from the offshore engineering services segment, which had lower gross profit margin in 2015 due to its first year of operation, (ii) decrease in gross profit margin of the oilfield equipment manufacturing and services segment, reflecting the selling price of drill pipes decreased more than the costs, and (iii) lower gross profit margin of the offshore engineering services segment and decreasing gross profit margin of the oilfield equipment manufacturing and services segment was partially offset by the increased gross profit margin of the oilfield services segment. Gross profit margin of line pipe technology and services remained stable in 2015 compared to that in 2014.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB29.6 million, or 21.3%, from RMB138.8 million in 2014 to RMB109.2 million in 2015, mainly attributable to higher portion of revenue derived from the offshore engineering services segment, which generally incurs less selling and marketing expenses as compared to that of the other three segments of the Group.

Administrative Expenses

Administrative expenses increased by RMB41.3 million, or 12.5%, from RMB331.5 million in 2014 to RMB372.8 million in 2015. Such increase primarily reflected (i) the incurrence of a full year administrative expenses in 2015 in connection with the acquisition of the Russia coating business and the US coating business in December 2014 and March 2014 respectively while only several months of administrative expenses in relation to the said acquisitions were charged in 2014; (ii) an increase in staff costs and office expenses incurred in connection with the expansion of the oilfield services business and offshore engineering services business, and (iii) an increase in expenses incurred in connection with the R&D activities for development of coating materials.

Other Gains/(Losses) – net

The Group recognised a net loss of RMB20.5 million in 2014 and a net gain of RMB96.6 million in 2015. The net gain recognised in 2015 reflected an exchange gains of RMB78.3 million from the operating activities as a combined result of the appreciation of United States Dollar and Hong Kong Dollar the depreciation of Canadian Dollar and Naira, and government grants of RMB16.3 million in relation to new and high-technology projects. The net loss recognised in 2014 primarily reflected a net loss of RMB41.8 million from foreign exchange partially offset by RMB16.7 million in government grants in relation to new and high-technology projects.

Finance Costs – net

Finance costs-net in 2015 mainly reflected (i) the interest expense from bank borrowings, after capitalisation, of RMB123.0 million, and (ii) an exchange loss of RMB115.7 million from the financing activities resulting from the appreciation of United States Dollar and Hong Kong Dollar. Finance costs-net in 2014 mainly reflected (i) interest expense from bank borrowings, after capitalisation, of RMB87.9 million, and (ii) foreign exchange gain of RMB4.9 million.

Profit before Income Tax

As a result of the foregoing, profit before income tax decreased from RMB461.7 million in 2014 to RMB199.4 million in 2015.

Income Tax Expense

The Group recognised income tax expense of RMB46.5 million in 2014 and RMB25.2 million in 2015. Effective tax rate was approximately 10.1% in 2014 and 12.7% in 2015. The increase in effective tax rate was mainly attributable to 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% in 2014 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%.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company decreased from RMB397.7 million in 2014 to RMB161.0 million in 2015.

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 days of inventory for the years indicated:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Inventory	**804,194**	840,540
Turnover days of inventory (in days)[1]	**179**	185

(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 2014 and 2015. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The decrease in turnover days of inventory from 185 days as at 31 December 2014 to 179 days as at 31 December 2015 primarily reflected (i) a decrease in inventory balance for the oilfield equipment manufacturing and services segment, and (ii) higher revenue derived from provision of services, which generally requires lesser consumption of inventory compared to that from sales of goods.

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	
	2015	2014
	RMB'000	*RMB'000*
Trade receivables		
– Due from third parties	**1,510,650**	1,492,739
– Due from related parties	**38,316**	68,052
– Less: Provision for impairment of receivables	**(27,237)**	(25,793)
Trade receivables – net	**1,521,729**	1,534,998
Other receivables		
– Due from third parties	**87,744**	78,269
– Due from related parties	**76,348**	88,363
Other receivables	**164,092**	166,632
Bills receivable	**34,615**	70,397
Prepayments	**133,837**	105,589
Dividend receivables	**3,346**	1,550
Total	**1,857,619**	1,879,166

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 ageing 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	
	2015	2014
	RMB'000	*RMB'000*
Trade receivables, net		
– Within 90 days	**725,537**	1,012,791
– Over 90 days and within 180 days	**264,531**	187,679
– Over 180 days and within 360 days	**236,135**	129,314
– Over 360 days and within 720 days	**231,735**	168,441
– Over 720 days	**63,791**	36,773
	1,521,729	1,534,998
Turnover days of trade receivables, net[1]	**225**	192

(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 2014 and 2015. 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 2015, trade receivables of RMB796.2 million, representing 52.3% of the Group's trade receivables after 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 192 days as at 31 December 2014 to 225 days as at 31 December 2015 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was less active and slowed down in 2015.

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 payables, 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	
	2015	2014
	RMB'000	*RMB'000*
Bills payable	**75,393**	128,776
Trade payables		
– Due to third parties	**702,395**	560,352
Other payables		
– Due to related parties	**31,483**	48,624
– Due to third parties	**48,853**	86,494
Staff salaries and welfare payables	**43,022**	37,122
Advance from customers	**70,913**	25,533
Interest payables	**15,286**	1,096
Accrued taxes other than income tax	**53,374**	42,145
Dividends payable	**1,463**	1,463
Other liabilities	**16,052**	10,845
	1,058,234	942,450

Trade payables represent payables due to third party suppliers and related parties. The following table sets forth an ageing 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	
	2015	2014
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**537,038**	485,303
– Over 90 days and within 180 days	**101,272**	52,707
– Over 180 days and within 360 days	**62,662**	20,440
– Over 360 days and within 720 days	**1,275**	463
– Over 720 days	**148**	1,439
	702,395	560,352
Turnover days of trade payables[(1)]	**138**	106

(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 2014 and 2015. 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 2014 to 31 December 2015 primarily reflected the increase of unbilled payables due to suppliers of the offshore engineering services segment using percentage-of-completion method.

Business Review

In 2015, the continuous decline in international oil price contributed to the persistence of extremely difficult market conditions for the global oil and gas industry and caused the significant adjustment of capital expenditure by certain customers in the industry. As a result, Hilong's business operation has experienced severe challenges during this period. Nevertheless, the year of 2015 also marked Hilong's first year of operation under the new business structure after deploying the new strategies. During the year, new businesses such as the offshore engineering services were officially launched and started to generate revenue, which injected growth impetus for the Company's sustainable development in the future. Benefiting from its diversified business portfolio, Hilong achieved relatively stable performance at the revenue level and recorded a total revenue of RMB2,484 million in 2015, representing a decrease of 3.6% over 2014. However, the net profit attributable to equity owners of the Company declined by 59.5% to RMB161 million, reflecting the impact of the tough market environment on Hilong's operational results.

Oilfield Services

Hilong's oilfield services segment successfully realized relatively steady operation in the year of 2015 and remained as the core revenue source of the Company. During the period, this segment recorded a total revenue of RMB923 million, indicating a decrease of 10.6% from 2014. This was a satisfactory result given the difficult market conditions throughout 2015. The drilling services, as the foundation of the segment, maintained stable development, and realized a total revenue of RMB691 million in the period, a year-on-year decline of 8.2% as compared to 2014. Due to the continuous slump of oil price worldwide and the consequential harsh market environment for the international oil and gas industry, most players in the industry, China or abroad, faced with the predicament of sharp decline of production volume combined with significant drop of day rate in the year of 2015. Nevertheless, Hilong successfully maintained stable work volume and relatively strong bargaining power in terms of pricing and kept up normal operation of its existing drilling rigs in the volatile market, relying on its high-end rig fleet, strong customer base and the strategic regional presence.

At the end of 2015, Hilong commenced drilling services for a new customer, Poly-GCL Petroleum Group Holdings Limited ("**Poly-GCL**"), in the newly developed regional market, Ethiopia, with two new high-end 2,000HP drilling rigs. This further enlarged the scale of Hilong's drilling rig fleet and expanded the business scope of its drilling services. Under difficult market conditions, Hilong's ability to engage new customers and win new contracts once again demonstrated its great strengths and leading market position in the international premium onshore drilling services domain as well as the recognition from the customers.

While maintaining stable operation for its traditional advantageous business, Hilong also actively developed new business lines. After a period of preparation, the development of Hilong's comprehensive services achieved a substantial breakthrough in 2015. Hilong has established teams for comprehensive services covering the service lines of drilling and completion fluids, directional drilling, horizontal drilling and well completion, and has made significant progress in terms of market development. At present, Hilong has already completed the market research for comprehensive services in several regions and obtained service contracts from various customers from both domestic and overseas markets. To be launched in 2016, the comprehensive services will contribute to the diversified revenue sources for the oilfield services segment in the new development era and further promote Hilong's transformation into an integrated oilfield services provider in the future.

Oilfield Equipment Manufacturing and Services

The operation of the oilfield equipment manufacturing and services segment has experienced great pressure in the year of 2015. During the period, this segment recorded a total revenue of RMB676 million, reflecting a decline of 46.7% over the year of 2014. The total revenue generated by the business of drill pipe and related products amounted to RMB457 million, representing a decline of 54.0% as compared to 2014. This mainly resulted from the scale back of capital expenditure by certain customers due to low international oil price and the consequential decline in demand for drill pipes. However, Hilong, as the sole strategic drill pipe supplier to Sinopec and one of the key drill pipe suppliers to CNPC, still maintained a strong presence in the domestic market with a relatively stable market share. In overseas markets, Hilong acutely captured the market dynamics and actively rearranged its regional sales focus. Under the difficult environment for the global oil and gas market, different geographical markets reacted differently. In particular, the customers in Russia and the surrounding areas still maintained relatively stable oil and gas exploration and production. In order to explore the drill pipe markets in this region more effectively, Hilong relocated part of its drill pipe production facility to Russia in the second half of 2015. This measure will enable Hilong to fully utilize the advantages associated with local production and concentrate the relevant resources on further exploring this regional market. Developing and promoting premium drill pipe products have always been given high priority by Hilong. In 2015, certain non-API drill pipe products developed by Hilong have been highly recognised by customers and widely applied across the industry while other new products were in the key stage of market promotion.

The total revenue generated from the OCTG coating services business reached RMB219 million during the period, a year-on-year decrease of 20.8% as compared to 2014. This line of business has achieved notable progress in terms of production capacity expansion and product range extension in recent years. In the past two years, Hilong completed the acquisition of Texas Internal Pipe Coating, LLC ("**TIPC**") in the U.S. and Hilong Temerso Co., Ltd.[1] in Russia. At present, these two plants are under stable operation and have played an important role in enhancing the overall market influence of Hilong brand in the regions of North America as well as Russia and the surrounding areas. Ever since the establishment of the OCTG coating services business, Hilong has maintained its leading position in the field of coating services applied on drill pipes. In recent years, Hilong keeps forging ahead and striving to expand the service scope and revenue sources of this line business. The Company has been actively promoting the application of coatings on tubings and casings and has seen some fruitful results. The above-mentioned efforts in expanding production capacity and broadening product range further strengthened Hilong's competitiveness in the field of OCTG coating services over the years.

1 Renamed to Hilong-Yekaterinburg LLC after the completion of the acquisition

Line Pipe Technology and Services

The line pipe technology and services segment realized a total revenue of RMB295 million in 2015, representing an increase of 8.6% as compared to 2014. After entering into the year of 2015, Hilong continued to implement the development strategy emphasizing diversification, high-end orientation and internationalization for this segment. In terms of business lines, the Company developed a number of new businesses to improve the overall segmental profitability. In terms of geographic coverage, Hilong coordinated the development of its business in both domestic and international markets, which effectively diversified the revenue sources, balanced the market risks and strengthened Hilong's international competitiveness in the field of line pipe coating services.

Despite the tough challenges faced by the segment in 2015, Hilong still won several orders from both China and international markets amid the depressed market environment, owing to its brilliant track record established through participation in large domestic projects and extensive experiences accumulated from overseas markets in recent years. These orders include the line pipe coating service project from China Petroleum Pipeline Material and Equipment Corporation (中油管道物資裝備總公司) and the Khazzan project from BP which Hilong jointly won with Baosteel. During the year, the most remarkable achievement of this segment was providing the traditional line pipe coating services for anti-corrosion purpose and the offshore concrete weighted coating services for the Company's offshore pipe-laying construction for CNOOC's East China Sea Project (the "CNOOC East China Sea Project"). Through close cooperation between the Company's line pipe technology and services segment and offshore engineering services segment, Hilong significantly improved the overall construction efficiency of the CNOOC East China Sea Project while ensured the quality of services, and made remarkable contribution to the successful execution of the project. Moreover, the line pipe technology and services team effectively strengthened its capability in providing supporting coating services for the Company's offshore pipe-laying services business through participating in this project, which helped pave the road for Hilong to provide one-stop offshore engineering services in the future.

The line pipe inspection business obtained another order from CNPC pursuant to which Hilong will provide inspection services for a specific section of Shan-Jing III Project (陝京三線). In addition, the Company has been actively pursuing potential business opportunities by following up closely with other customers. All these achievements testified Hilong's development strategy of diversification, high-end orientation and internationalization for the line pipe technology and services segment and are expected to effectively enhance the overall profitability of this segment in the medium and long-term.

Offshore Engineering Services

To explore the business opportunities in the offshore oil and gas industry has been Hilong's long-term development vision as well as one of the Company's forward-looking development strategies. In 2015, Hilong officially launched the offshore engineering services business and started a new development era of marching into the offshore-related business from onshore operation. This initiative will broaden the revenue sources, fuel the continuous growth and effectively strengthen the Company's ability in resisting risks. At the early stage of development, this new segment will rely on the offshore pipe-laying and derrick vessel, Hilong 106, and mainly undertake the businesses of offshore pipe laying and offshore transportation and installation. During the period, the total revenue generated from this segment amounted to

RMB590 million. In particular, Hilong successfully laid offshore pipe lines for the CNOOC East China Sea Project and the Weizhou Phase II Project using Hilong 106. Hilong pays great attention to construction safety and efficiency. Throughout the execution of these two projects, Hilong strictly adhered to all the HSE standards and successfully ensured the quality of construction through its rigorous design proposals and professional on-site work. Hilong also set several new records in terms of construction efficiency for projects of same category in China, which were highly appreciated by the customers and widely recognised by the industry. Hilong also seized the opportunity to strengthen its core team and improve the operating system in a fast and effective manner through the successful execution of the above two major projects. Leveraging its technical strengths and effective internal communication, the offshore engineering design service team of the segment provided strong technical support for the execution of these two major contracts. The innovative design plans proposed by the team were highly recognised by CNOOC and had been testified in the construction process of these two projects. Certain design plans have already been adopted by CNOOC as the new design and construction standards for similar projects. Meanwhile, the team also won several contracts to provide offshore engineering design consultation services for external customers and received wide recognition from the industry, capitalizing on its outstanding design capability. These achievements fully reflected the value generated by the offshore engineering design service team both internally and externally. The successful execution of the aforesaid two projects made Hilong the first domestic privately run company to win and execute such sizable EPCI service contracts and also proved to the market Hilong's high-standard capability in providing integrated offshore engineering services covering engineering design, construction and all the other relevant areas. These achievements not only strengthened Hilong's market position in China but also laid a solid foundation for the Company to develop offshore engineering services business in the international markets in the future.

Prospects

Looking into 2016, despite facing multiple market challenges, the Company is confident in maintaining stable operation of the overall business. Hilong has actively explored the path for reform and development and has built up a diversified business framework through restructuring existing businesses and expanding to new areas. Going forward, Hilong will continue to focus on specialized operation while endeavour to improve profitability and risk-resistant capability through maintaining a moderately diversified business portfolio in order to lay a solid foundation for the Company's development in the new stage and under the new market environment.

Oilfield Services

The oilfield services segment will keep up the momentum of steady development. Hilong considers the sustained and stable operation of the existing rig fleet as the top priority to maintain the steady operation of the entire segment. The Company will maintain smooth communications with existing customers and improve the operational efficiency of existing projects while ensuring the successful continuation of contracts. Hilong will enter Albania in 2016 and commence drilling services for Shell with a new 3,000 HP drilling rig in this new regional market of East Europe. At the same time, the two 2,000 HP drilling rigs that were put into service at the end of 2015 for Poly-GCL in Ethiopia will contribute to the revenue in 2016. All these newly-invested rigs will lay the groundwork for the sustainable growth of the drilling services for the next few years. In addition, Hilong will continue to pursue new opportunities including developing new regional markets, expanding new business lines and enlarging customer base. The Company is actively exploring several new regional markets and closely following up with certain potential customers and orders, of which Hilong is specifically promoting the business development in the Middle East region. At present, Hilong has already conducted in-depth discussions with certain customers in the Middle East and is now cooperating with these customers to complete the preparatory work including supplier qualification review. All these demonstrated that the Company is striving to establish business layout in new strategic regions in a short time and seek new growth drivers for its drilling services, which is one of Hilong's traditional businesses with strong advantages.

In the meantime, the Company is dedicated to improving its capability in providing integrated oilfield services, and as a starting point, will further foster the development of comprehensive services business. At this moment, Hilong's comprehensive services has taken shape and the Company has already obtained several sizeable contracts in both domestic and overseas markets. Hilong will make every effort to ensure the successful execution of these projects in 2016 in order to establish a solid track record and sound reputation in the industry and pave the road for market expansion in the future. In addition, Hilong cooperated with a local partner in Nigeria whereby Hilong manages the equipment and facilities provided by the partner and successfully won a service contract for operating a swamp drilling rig. This represented Hilong's exploration of new business model, which reduces Hilong's operational costs and risks when expanding into a new business area on the one hand, and enables Hilong to fully utilize its advantages in technology and management on the other. The execution of this contract will commence in 2016. In terms of trading and related services, several contracts signed in 2015 will be executed during 2016 and will bring in additional revenue for this segment. The development of these new businesses will generate diversified sources of revenue for the oilfield services segment and will propel Hilong to transform into an integrated oilfield services provider in the long run.

Oilfield Equipment Manufacturing and Services

Although the drill pipes business is still facing great pressure, Hilong is committed to strengthen its market share and will actively seek potential market opportunities amid difficult market environment. As Sinopec's sole strategic drill pipe supplier and one of CNPC's key drill pipe suppliers, Hilong has always been well positioned in the domestic market with a solid customer base. Relying on its years of cooperation with the key customers, its thorough understanding of the domestic market and strong R&D capability, Hilong will carry out various strategies to strengthen its leading position in the China market. On one hand, Hilong will adjust its product mix in the domestic market by increasing the sales proportion of Non-API drill pipes with highly added value in order to further improve the level and profitability of its domestic sales. On the other hand, Hilong will vigorously impel the drill pipe leasing business, with an aim to enhance customer experience, strengthen customer relationships and promote new products through the custom-made services. With regard to the overseas market, Hilong will focus on cultivating the regional markets including Russia and its surrounding area, reinforcing the leading market position in this region and continuing to develop potential market demand. Currently under the stage of commissioning, the drill pipe production line in Russia will officially commence production in mid 2016 and is expected to contribute revenue within the year after a period of trial production. Moreover, Hilong will further explore the Middle East market and make every effort to gain more exposure and market share in the local high-end market.

The OCTG coating services business is expected to maintain steady development. This line of business is one of Hilong's traditional pillar businesses with strong advantage and the most remarkable profitability. In recent years, Hilong has deployed new production capacity or upgraded the existing production facility for the OCTG coating services business in key strategic locations both domestically and internationally in a planned manner. At present, Hilong is fully equipped with the capacity and capability of applying coatings for the entire series of OCTG pipes and various new types of pipes. This significantly expands the business scope of Hilong's OCTG coating services, effectively improves production efficiency, and prepares Hilong in respects of technologies and production capability to seize the opportunities brought by the growing demand for high-end coatings applied onto tubings and casings and other new types of pipes. Hilong will continue to focus on market development and actively nurture new market demands to realize optimization of production capacity and achieve steady growth in the new development era.

Line Pipe Technology and Services

Hilong will continue to carry out the development strategy featured with diversification, high-end orientation and internationalization for the line pipe technology and services segment. Over the past few years, Hilong provided coating services for several line pipe construction projects in overseas markets, through which it has accumulated extensive experience and established excellent reputation for its qualification and capability widely recognised by the international customers. Going forward, Hilong will intensify its efforts to explore overseas markets while continuing to actively participate in the major projects in China and reinforce its presence in the domestic market. In particular, Hilong will strive to seek more opportunities in participating in major international projects for its newly developed premium CRA and CWC businesses and build up a track record for future development.

The seamless cooperation between line pipe technology and services segment and offshore engineering services segment in the execution of the offshore pipe laying construction for the CNOOC East China Sea Project has set an example for synergy between Hilong's different business segments. Going forward, the two segments will continue the close cooperation and strive for more line pipe coating services business for offshore pipe laying constructions so as to achieve synergy between the segments. The Company will also expedite the development of its line pipe inspection business through further developing the market and strengthening the market presence. All these efforts will help Hilong to expand and improve the value chain for line pipe services and prepare Hilong in growing into a one-stop solution provider of line pipe services with all speed. With regard to cooperation within the industry, Hilong has entered into framework agreements of strategic cooperation with China Petroleum Pipeline Bureau (中國石油天然氣管道局) and CNPC Baoji Petroleum Steel Pipe Co., Ltd. (中國石油寶雞石油鋼管有限責任公司), and will collaborate with CNPC in the areas such as traditional line pipe coating for anti-corrosion purpose, offshore concrete weighted coating and line pipe inspection. This will enable Hilong to further elevate the cooperation level and expand the scope of cooperation with CNPC. In addition, Hilong has independently developed several new premium coating material products including the coating materials applied to offshore vehicles. At present, the Company has already completed the research work and will obtain the relevant certificates and officially launch the marketing of these products soon. These new products are targeted to meet the high-end demand from international customers and will further enhance the recognition of Hilong brand in the international markets.

Offshore Engineering Services

The offshore pipe-laying and derrick vessel-Hilong 106 successfully completed the offshore pipe-laying construction for CNOOC's Weizhou Phase II Project and CNOOC East China Sea Project in 2015 and established a remarkable track record for Hilong in the field of offshore engineering services. Currently, the Company is actively studying several potential projects both in China and abroad and strives to obtain more business opportunities in 2016. The offshore engineering design services business will also speed up its pace of development and further expand its design consultation services targeted at external parties while continuing to provide strong technical support for internal projects. Hilong also signed a framework agreement of strategic cooperation with CNPC Offshore Engineering Company Limited (中國石油集團海洋工程有限公司) ("**CPOE**") in 2015, and will conduct cooperation with CPOE in the fields including offshore engineering design and construction. The agreement represents another strategic alliance between Hilong and the top domestic customers in the field of offshore engineering services after its winning of the two EPCI service contracts from CNOOC and the entering into an agreement with CNOOC to provide offshore engineering design consultation services. All these accomplishments achieved during the first year of operation of the offshore engineering services segment fully reflected the wide recognition of Hilong's high-standard capability of providing integrated offshore engineering services in the domestic market. Going forward, Hilong will continue to strengthen its strategic cooperation with premium domestic customers while actively pursuing communication and cooperation with the high-profile international players in this field in order to pave the road to enter into the international markets.

We firmly believe that, with our endeavors, Hilong will continue to create stable returns to the shareholders.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Net cash from operating activities	**484,774**	260,734
Net cash used in investing activities	**(235,795)**	(1,319,978)
Net cash from financing activities	**12,791**	1,213,254
Net increase in cash and cash equivalents	**261,770**	154,010
Exchange gains on cash and cash equivalents	**11,537**	3,158
Cash and cash equivalents at beginning of the year	**548,057**	390,889
Cash and cash equivalents at end of the year	**821,364**	548,057

Operating Activities

Net cash from operating activities in 2015 was RMB484.8 million, representing cash generated from operations of RMB682.4 million, partially offset by the interest payment of RMB116.3 million and income tax payment of RMB81.3 million.

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.

Investing Activities

Net cash used in investing activities in 2015 was RMB235.8 million, primarily reflecting payment of RMB238.9 million for purchases of property, plant and equipment, and to a lesser extent, partially offset by a proceed of RMB3.2 million from disposal of property, plant and equipment.

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.

Financing Activities

There was almost no net cash generated from or used in financing activities in 2015, for proceeds of RMB1,310.9 million from borrowings was offset by (i) repayment of borrowings of RMB1,227.4 million, and (ii) dividends payment of RMB66.9 million.

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.

Capital Expenditures

Capital expenditures were RMB1,296.4 million and RMB306.5 million in 2014 and 2015 respectively. The significant decrease in capital expenditures in 2015 primarily reflected the one-off procurement of pipe-lay barge for the offshore engineering services segment in 2014.

Indebtedness

As at 31 December 2015, the outstanding indebtedness of RMB2,676.9 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	
	2015	2014
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – unsecured	**2,156,532**	1,891,464
Less: Current portion of non-current borrowings	**(1,072,068)**	(261,503)
	1,084,464	1,629,961
Current		
Bank borrowings – secured	**50,377**	22,028
Bank borrowings – unsecured	**470,003**	549,081
Current portion of non-current borrowing	**1,072,068**	261,503
	1,592,448	832,612
	2,676,912	2,462,573

The bank borrowings of RMB50.4 million were secured by certain bank deposits of the Group, with a carrying amount of RMB32.5 million as at 31 December 2015.

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 2015 and 2014 are as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Total borrowings	**2,676,912**	2,462,573
Less: Cash and cash equivalents	**(821,364)**	(548,057)
Net debt	**1,855,548**	1,914,516
Total equity	**3,256,136**	3,143,249
Total capital	**5,111,684**	5,057,765
Gearing ratio	**36.30%**	37.85%

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 the United States dollar ("USD"). Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 30.4% appreciation of RMB against the USD from 21 July 2005 to 31 December 2015. 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 47.9% and 55.8% of the total revenue of the Company in 2014 and 2015, respectively.

Staff and Remuneration Policy

As at 31 December 2015, the total number of full-time employees employed by the Group was 2,632 (31 December 2014: 2,658). The following table sets forth the number of the Group's fulltime employees by area of responsibility as at 31 December 2015:

On-site workers	1,617
Administrative	448
Research and development	151
Engineering and technical support	248
Company management	43
Sales, marketing and after-sales services	125
	2,632

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

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

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

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the "Corporate Governance Code 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 2015, 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 to 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 2015.

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 2015 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 2015 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 2015.

DIVIDENDS

The Board resolved to recommend the payment of a final dividend of HK2.0 cents per share (2014: HK5.0 cents per share), amounting to approximately HK$33.9 million (equivalent to approximately RMB28.4 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2015, 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 Tuesday, 12 July 2016 to the shareholders of the Company whose names appear on the register of members of the Company as at Tuesday, 5 July 2016.

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 22 June 2016 to Friday, 24 June 2016, 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, 21 June 2016.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 30 June 2016 to Tuesday, 5 July 2016, 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 Wednesday, 29 June 2016.

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 2015 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

18 March 2016

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