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Hilong Holding Limited

海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,256.8 million, representing an increase of approximately 36.3% as compared with the same period in 2016.
- Gross profit was approximately RMB441.3 million, representing an increase of approximately 36.2% as compared with the same period in 2016. Gross profit margin was 35.1%, the same with that for the same period in 2016.
- Profit before income tax was approximately RMB101.6 million, representing an increase of approximately 5.8% as compared with the same period in 2016.
- Profit attributable to equity owners of the Company was approximately RMB65.4 million, representing a decrease of approximately 2.4% as compared with the same period in 2016.
- The Board resolved not to declare any interim dividend for the six months ended 30 June 2017.

* For identification purposes only

The board (the “**Board**”) of directors (the “**Directors**”) of Hilong Holding Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**” or “**Hilong**” or “**us**”) prepared according to the Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the six months ended 30 June 2017 (the “**Interim Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		(Unaudited)	
		Six months ended 30 June	
	<i>Note</i>	2017	2016
		RMB'000	RMB'000
Revenue	4(a)	1,256,777	921,810
Cost of sales		(815,495)	(597,928)
Gross profit		441,282	323,882
Selling and marketing expenses		(75,228)	(50,717)
Administrative expenses		(200,253)	(147,447)
Other (losses)/gain – net		(31,770)	101,961
Operating profit		134,031	227,679
Finance income		58,750	3,020
Finance costs		(94,503)	(134,411)
Finance costs – net		(35,753)	(131,391)
Share of profit/(losses) of investments accounted for using equity method		3,307	(312)
Profit before income tax		101,585	95,976
Income tax expense	5	(28,994)	(26,493)
Profit for the period		72,591	69,483
Profit attributable to:			
Equity owners of the Company		65,370	66,988
Non-controlling interests		7,221	2,495
		72,591	69,483
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	6	0.0385	0.0395
– Diluted	6	0.0385	0.0395

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	72,591	69,483
Other comprehensive (losses)/income:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(45,761)	45,105
Total comprehensive income for the period	26,830	114,588
Attributable to:		
Equity owners of the Company	19,609	112,093
Non-controlling interests	7,221	2,495
	26,830	114,588

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

		(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		3,054,498	3,139,744
Lease prepayments		87,499	88,567
Intangible assets		170,816	173,581
Investments accounted for using equity method		58,411	57,615
Deferred income tax assets	5	150,437	143,198
Other long-term assets		16,151	4,313
		<u>3,537,812</u>	<u>3,607,018</u>
Current assets			
Inventories		864,026	798,759
Trade and other receivables	8	2,184,270	2,040,171
Current income tax recoverable		32,164	39,768
Restricted cash		234,495	155,036
Cash and cash equivalents		736,331	657,422
		<u>4,051,286</u>	<u>3,691,156</u>
Total assets		<u>7,589,098</u>	<u>7,298,174</u>
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	9	141,976	141,976
Other reserves		1,134,730	1,133,443
Currency translation differences		(30,484)	15,277
Retained earnings		2,014,444	1,963,797
		<u>3,260,666</u>	<u>3,254,493</u>
Non-controlling interests		<u>232,938</u>	<u>237,385</u>
Total equity		<u>3,493,604</u>	<u>3,491,878</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2017

		(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings		1,884,308	1,317,411
Deferred income tax liabilities	5	42,461	44,113
Deferred revenue		25,860	35,822
		<u>1,952,629</u>	<u>1,397,346</u>
Current liabilities			
Trade and other payables	10	1,078,764	950,912
Current income tax liabilities		36,315	25,416
Borrowings		1,020,519	1,430,678
Derivative financial instruments		–	1,097
Deferred revenue		7,267	847
		<u>2,142,865</u>	<u>2,408,950</u>
Total liabilities		<u>4,095,494</u>	<u>3,806,296</u>
Total equity and liabilities		<u>7,589,098</u>	<u>7,298,174</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017

(Unaudited)							
Capital and reserves attributable to equity owners							
Note	Ordinary	Other	Retained	Cumulative	Total	Non-	Total
	shares	reserves	earnings	translation		controlling	equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016	141,976	1,127,528	1,869,990	(117,445)	3,022,049	234,087	3,256,136
Comprehensive income							
Profit for the period	–	–	66,988	–	66,988	2,495	69,483
Other comprehensive income							
Currency translation differences	–	–	–	45,105	45,105	–	45,105
Total comprehensive income for the period	–	–	66,988	45,105	112,093	2,495	114,588
Transactions with owners							
Pre-IPO share option plan	–	140	–	–	140	–	140
2013 Share Option Scheme	–	1,823	–	–	1,823	–	1,823
Dividends in respect of 2015	7	–	(28,769)	–	(28,769)	–	(28,769)
Total transaction with owners	–	1,963	(28,769)	–	(26,806)	–	(26,806)
As at 30 June 2016	<u>141,976</u>	<u>1,129,491</u>	<u>1,908,209</u>	<u>(72,340)</u>	<u>3,107,336</u>	<u>236,582</u>	<u>3,343,918</u>
As at 1 January 2017	141,976	1,133,443	1,963,797	15,277	3,254,493	237,385	3,491,878
Comprehensive income							
Profit for the period	–	–	65,370	–	65,370	7,221	72,591
Other comprehensive income							
Currency translation differences	–	–	–	(45,761)	(45,761)	–	(45,761)
Total comprehensive income/(losses) for the period	–	–	65,370	(45,761)	19,609	7,221	26,830
Transactions with owners							
2013 Share Option Scheme	–	1,287	–	–	1,287	–	1,287
Dividends in respect of 2016	7	–	(14,723)	–	(14,723)	–	(14,723)
Profit distribution to non-controlling interests	–	–	–	–	–	(11,668)	(11,668)
Total transaction with owners	–	1,287	(14,723)	–	(13,436)	(11,668)	(25,104)
As at 30 June 2017	<u>141,976</u>	<u>1,134,730</u>	<u>2,014,444</u>	<u>(30,484)</u>	<u>3,260,666</u>	<u>232,938</u>	<u>3,493,604</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Cash flow from operating activities		
Cash flow generated from/(used in) operations	139,829	(2,563)
Interest paid	(127,537)	(78,531)
Income tax paid	(19,597)	(18,587)
Net cash used in operating activities	(7,305)	(99,681)
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	1,295	–
Purchases of property, plant and equipment	(93,817)	(156,666)
Purchases of intangible assets	(978)	–
Net cash outflow arising from security deposit for bank borrowings	(58,678)	–
Dividends received	–	1,796
Net cash used in investing activities	(152,178)	(154,870)
Cash flow from financing activities		
Proceeds from borrowings	2,330,020	816,868
Repayments of borrowings	(2,081,163)	(899,698)
Net cash inflow arising from financial instruments	50	–
Net cash generated from/(used in) financing activities	248,907	(82,830)
Net increase/(decrease) in cash and cash equivalents	89,424	(337,381)
Exchange losses on cash and cash equivalents	(10,515)	(9,858)
Cash and cash equivalents at beginning of the period	657,422	821,364
Cash and cash equivalents at end of the period	736,331	474,125

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

2 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

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

(a) Amended standards adopted by the Group:

The following new and amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2017:

- Amendments to HKAS 12, “Income taxes”.
- Amendments to HKAS 7, “Statement of cash flows”.
- Amendments to HKFRS 12, “Disclosure of interest in other entities”.

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 standards and amendments to existing standards that have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:

- 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.
- Amendment to HKAS 28, ‘Investments in associates and joint ventures’, effective for the accounting period beginning on or after 1 January 2018.
- HK (IFRIC) 22, ‘Foreign Currency Transactions and Advance Consideration’, effective for the accounting period beginning on or after 1 January 2018.
- HKFRS 16 “Leases”, effective for the accounting period beginning on or after 1 January 2019.

Management assessed the impact of the above standards. None of these is expected to have a significant effect on the condensed interim financial information of the Group.

2 ACCOUNTING POLICIES (continued)

- (c) Changes effective for annual periods on or after a date to be determined and have not been early adopted by the Group:

Amendments to HKFRS 10 and HKAS 28 “Sale or contribution of assets between an investor and its associate or joint venture”. The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

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

3 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to consolidated financial statements for the year ended 31 December 2016.

4 SEGMENT INFORMATION

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

Senior executive management considers the business substance 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 profits/(losses) of investments accounted for using equity method and corporate overheads, which is consistent with that in the condensed consolidated interim financial information.

The corporate overheads are not considered as the business segment expenses during the six months ended 30 June 2017 and 2016 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 condensed consolidated interim financial information. These assets are allocated based on the operations of segment. Investments accounted for using equity method are not considered to be segment assets but rather are 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 condensed consolidated interim financial information. These liabilities are allocated based on the operations of segment.

4 SEGMENT INFORMATION (continued)

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

- Oilfield equipment manufacturing and services provision, including the production of oilfield equipment and provision of OCTG coating services;
- Line pipe technology and services provision, including the provision of services related to oil and gas pipe line and production of coating materials for 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 six months ended 30 June 2017 and 2016 are set out as follows:

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	645,827	402,552
Line pipe technology and services	198,334	141,839
Oilfield services	374,375	344,231
Offshore engineering services	38,241	33,188
	<u>1,256,777</u>	<u>921,810</u>

4 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2017 is as follows:

Business segment	Six months ended 30 June 2017 (Unaudited)				
	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	664,096	216,411	374,375	38,241	1,293,123
Inter-segment sales	(18,269)	(18,077)	–	–	(36,346)
Revenue from external customers	645,827	198,334	374,375	38,241	1,256,777
Results					
Segment gross profit	201,860	54,340	152,998	32,084	441,282
Segment profit/(losses)	68,556	14,749	84,260	(1,250)	166,315
Corporate overheads					(32,284)
Operating profit					134,031
Finance income					58,750
Finance costs					(94,503)
Share of profit of investments accounted for using equity method					3,307
Profit before income tax					101,585
Other information					
Depreciation of property, plant and equipment	43,617	8,831	52,484	25,571	130,503
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	345	94	30	461	930
Capital expenditure	40,741	1,277	21,686	43,910	107,614
As at 30 June 2017 (Unaudited)					
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	3,253,423	801,602	2,134,750	1,340,912	7,530,687
Investments accounted for using equity method					58,411
Total assets					7,589,098
Total liabilities	3,422,924	318,068	310,433	44,069	4,095,494

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2016 is as follows:

Business segment	Six months ended 30 June 2016 (Unaudited)				
	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	426,292	170,776	344,231	33,188	974,487
Inter-segment sales	(23,740)	(28,937)	–	–	(52,677)
Revenue from external customers	402,552	141,839	344,231	33,188	921,810
Results					
Segment gross profit/(losses)	153,340	36,776	143,263	(9,497)	323,882
Segment profit/(losses)	165,123	7,472	90,690	(4,158)	259,127
Corporate overheads					(31,448)
Operating profit					227,679
Finance income					3,020
Finance costs					(134,411)
Share of losses of investments accounted for using equity method					(312)
Profit before income tax					95,976
Other information					
Depreciation of property, plant and equipment	31,897	6,962	46,930	27,518	113,307
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	205	94	–	462	761
Capital expenditure	43,773	210	67,422	19,561	130,966
As at 30 June 2016 (Unaudited)					
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	2,772,189	606,156	2,227,354	1,286,225	6,891,924
Investments accounted for using equity method					58,909
Total assets					6,950,833
Total liabilities	3,047,343	204,688	325,811	29,073	3,606,915

4 SEGMENT INFORMATION (continued)

(c) Geographical segments

Although the Group's four segments are managed on a worldwide basis, they operate in six principal geographical areas of the world. In the 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, South America and East Europe, 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:

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Russia, Central Asia and East Europe	498,221	268,876
The PRC	302,166	299,405
South Asia	183,247	98,367
Africa	129,380	80,183
North and South America	105,896	153,842
Middle East	36,853	19,938
Others	1,014	1,199
	<u>1,256,777</u>	<u>921,810</u>

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

	(Unaudited)	(Audited)
	Carrying amount of	
	segment assets	
	30 June	31 December
	2017	2016
	RMB'000	RMB'000
The PRC	2,025,904	2,056,905
North and South America	444,773	475,879
Africa	288,429	316,258
South Asia	228,507	247,784
Russia, Central Asia and East Europe	212,679	173,235
Middle East	112,521	131,831
	<u>3,312,813</u>	<u>3,401,892</u>

4 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
The PRC	78,022	26,911
Russia, Central Asia and East Europe	37,975	57,331
South Asia	5,356	70,540
North and South America	970	(26,151)
Africa	(2,051)	1,486
Middle East	(12,658)	849
	107,614	130,966

5 INCOME TAX EXPENSE

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax	37,800	22,523
Deferred income tax	(8,806)	3,970
Income tax expense	28,994	26,493

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 six months ended 30 June 2017 and 2016.

5 INCOME TAX EXPENSE (continued)

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 34% prevailing in the places in which the Group operated for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 15% 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 China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate can 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, which has successfully applied for and been qualified as a “beneficial owner”. Given the above, the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2013 to 2015. Hilong Energy is in the process of renewal of the qualification during this period.

As at 30 June 2017, the permanently reinvested unremitted earnings totalled RMB1,137,380,000 (31 December 2016: RMB1,144,460,000).

6 EARNINGS PER SHARE

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

	(Unaudited)	
	Six months ended 30 June	
	2017	2016
Profit attributable to equity owners of the Company (RMB'000)	65,370	66,988
Weighted average number of ordinary shares in issue (thousands of shares)	1,696,439	1,696,439
Basic earnings per share (RMB per share)	0.0385	0.0395

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 30 June) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 30 June 2017, there were 29,564,300 (30 June 2016: 29,174,300) share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2017 and 2016, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 30 June 2017, there were 17,221,200 (30 June 2016: 17,221,200) share options outstanding related to 2013 Share Option Scheme. For the six months ended 30 June 2017 and 2016, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

7 DIVIDENDS

The dividend in respect of 2016 of HKD0.0100 (equivalent to RMB0.0087) per share, amounting to a total dividend of HKD16,964,000 (equivalent to RMB14,723,000), was approved at the Company's annual general meeting on 23 June 2017. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2017.

The dividend in respect of 2015 of HKD0.0200 (equivalent to RMB0.0170) per share, amounting to a total dividend of HKD33,929,000 (equivalent to RMB28,769,000), was approved at the Company's annual general meeting on 24 June 2016. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2016.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Bills receivable	18,771	34,073
Trade receivables (a)		
– Due from third parties	1,714,478	1,643,817
– Due from related parties	16,503	12,869
Trade receivables – gross	1,730,981	1,656,686
Less: Provision for impairment of receivables	(33,511)	(33,511)
Trade receivables – net	1,697,470	1,623,175
Dividends receivable	5,036	1,550
Other receivables	214,076	196,479
Prepayments	248,917	184,894
Trade and other receivables – net	2,184,270	2,040,171

As at 30 June 2017 and 31 December 2016, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

8 TRADE AND OTHER RECEIVABLES (continued)

- (a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at 30 June 2017 and 31 December 2016 was as follows:

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Trade receivables, gross		
– Within 90 days	762,909	623,899
– Over 90 days and within 180 days	121,000	134,241
– Over 180 days and within 360 days	276,505	234,892
– Over 360 days and within 720 days	390,594	510,644
– Over 720 days	179,973	153,010
	<u>1,730,981</u>	<u>1,656,686</u>

9 ORDINARY SHARES

	(Unaudited)	Equivalent nominal value of ordinary shares (In RMB)
Number of ordinary shares	Nominal value of ordinary shares (In HKD)	
As at 1 January 2016 and 30 June 2016	1,696,438,600	169,643,860
As at 1 January 2017 and 30 June 2017	1,696,438,600	169,643,860

10 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Bills payable	164,771	96,287
Trade payables:		
– Due to third parties	595,065	511,514
Other payables:	139,011	135,965
– Due to related parties	72,138	97,386
– Due to third parties	66,873	38,579
Advance from customers	52,097	95,367
Staff salaries and welfare payables	32,934	45,174
Interest payables	6,335	21,807
Accrued taxes other than income tax	51,902	36,108
Dividends payable	27,854	1,463
Other liabilities	8,795	7,227
	1,078,764	950,912

As at 30 June 2017 and 31 December 2016, 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.

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

	(Unaudited) 30 June 2017 RMB'000	(Audited) 31 December 2016 RMB'000
Trade payables, gross		
– Within 90 days	234,025	325,061
– Over 90 days and within 180 days	235,170	170,397
– Over 180 days and within 360 days	124,306	10,400
– Over 360 days and within 720 days	1,344	5,458
– Over 720 days	220	198
	595,065	511,514

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

	Six months ended 30 June			
	2017		2016	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	495,614	39.4	320,733	34.8
– Oil country tubular goods (“OCTG”) coating services	94,986	7.6	68,978	7.5
– Drill pipe components	32,203	2.6	1,859	0.2
– Hardbanding	2,335	0.2	2,399	0.3
– Others	20,689	1.6	8,583	0.9
Subtotal	645,827	51.4	402,552	43.7
Line pipe technology and services				
– OCTG coating materials	22,016	1.8	22,271	2.4
– Oil and gas line pipe coating materials	60,451	4.8	46,894	5.1
– Oil and gas line pipe coating services	49,612	3.9	34,032	3.7
– Corrosion Resistant Alloy (“CRA”) lined pipe	19,041	1.5	6,646	0.7
– Concrete Weighted Coating (“CWC”) services	43,589	3.5	28,404	3.1
– Pipeline inspection services	3,625	0.3	3,592	0.4
Subtotal	198,334	15.8	141,839	15.4
Oilfield services	374,375	29.8	344,231	37.3
Offshore engineering services	38,241	3.0	33,188	3.6
Total revenue	1,256,777	100.0	921,810	100.0

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

	Six months ended 30 June			
	2017		2016	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Russia, Central Asia and East Europe	498,221	39.6	268,876	29.2
The PRC	302,166	24.0	299,405	32.5
South Asia	183,247	14.6	98,367	10.7
Africa	129,380	10.3	80,183	8.7
North and South America	105,896	8.4	153,842	16.7
Middle East	36,853	2.9	19,938	2.1
Others	1,014	0.1	1,199	0.1
Total	1,256,777	100.0	921,810	100.0

Revenue increased by RMB335.0 million, or 36.3%, from RMB921.8 million for the six months ended 30 June 2016 to RMB1,256.8 million for the Interim Period. Such increase was mainly due to the increase in revenue from the oilfield equipment manufacturing and services segment and the line pipe technology and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB243.3 million, or 60.4%, from RMB402.6 million for the six months ended 30 June 2016 to RMB645.8 million for the Interim Period. Such increase primarily reflected a significant increase in revenue derived from the sales of drill pipes, OCTG coating services and drill pipe components.

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

	Six months ended 30 June	
	2017	2016
Sales of drill pipes		
– International market		
– volume (<i>tonnes</i>)	25,954	13,559
– unit price (<i>RMB/tonne</i>)	18,256	19,449
Subtotal (<i>RMB'000</i>)	473,808	263,702
– The PRC market		
– volume (<i>tonnes</i>)	1,451	3,277
– unit price (<i>RMB/tonne</i>)	15,024	17,405
Subtotal (<i>RMB'000</i>)	21,806	57,031
Total (<i>RMB'000</i>)	495,614	320,733

Revenue from the sales of drill pipes in the international market increased by RMB210.1 million, or 79.7%, from RMB263.7 million for the six months ended 30 June 2016 to RMB473.8 million for the Interim Period. The increase primarily reflected a significant increase of 91.4% in the volume of drill pipes sold from 13,559 tonnes for the six months ended 30 June 2016 to 25,954 tonnes for the Interim Period, partly offset by a 6.1% decrease in average selling price sold in the international market from RMB19,449 per tonne for the six months ended 30 June 2016 to RMB18,256 per tonne for the Interim Period. The increase in the sales volume primarily reflected the large demands from the Russia market and the enhancement of Hilong's brand recognition in the Russia market.

Revenue from the sales of drill pipes in the PRC market decreased by RMB35.2 million, or 61.8%, from RMB57.0 million for the six months ended 30 June 2016 to RMB21.8 million for the Interim Period. The decrease primarily reflected a 55.7% decrease in volume of drill pipes sold in the PRC market from 3,277 tonnes for the six months ended 30 June 2016 to 1,451 tonnes for the Interim Period and, to a lesser extent, a 13.7% decrease in average selling price sold in the PRC market from RMB17,405 per tonne for the six months ended 30 June 2016 to RMB15,024 per tonne for the Interim Period. The decrease in the sales volume primarily reflected that the Company allocated more production capability to the international market, while the decrease in average selling price primarily reflected that the guideline price of American Petroleum Institute ("API") drill pipe products based on annual bid of both CNPC and Sinopec Group decreased in the Interim Period compared to that in the six months ended 30 June 2016.

Revenue from OCTG coating services increased by RMB26.0 million, or 37.7%, from RMB69.0 million for the six months ended 30 June 2016 to RMB95.0 million for the Interim Period. The increase was mainly due to the increased demands for OCTG coating services in the international market as a result of the recovery of capital and operation spending by certain international and PRC oil and gas companies in the Interim Period.

Line pipe technology and services. Revenue from the line pipe technology and services segment increased by RMB56.5 million, or 39.8%, from RMB141.8 million for the six months ended 30 June 2016 to RMB198.3 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating materials, oil and gas line pipe coating services, CRA lined pipe and CWC services.

The increase in revenue derived from materials and services of oil and gas line pipe coating primarily reflected that the Company made continuous efforts to actively take part in major domestic projects and to strengthen its market position, as well as increased its efforts to explore overseas markets.

The increase in revenue derived from CRA lined pipe primarily reflected that our capacities were occupied by the Dongfang 13-2 gas field project in the Interim Period.

The increase in revenue from CWC services reflected that our capacities were occupied by the subsea crude oil pipeline anti-corrosion contract from Zhejiang Petrochemical Co. Limited in the Interim Period. It reflected that the Company's capability in line pipe engineering is accepted and highly recognized by major operators in the industry.

Oilfield services. Revenue from the oilfield services segment increased by RMB30.1 million, or 8.8%, from RMB344.2 million for the six months ended 30 June 2016 to RMB374.4 million for the Interim Period. Such increase was attributable to (i) higher oilfield services revenue generated for some drilling rigs that had been relocated and have no work load in the six months ended 30 June 2016, partly offset by (ii) the decrease in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients for the Interim Period as compared to the six months ended 30 June 2016.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period was attributable to approximately RMB24 million from the TIMAS PHE WMO Project and approximately RMB12 million from the Large Steel Cylinder (experimental stage) Project of the New Sanya Airport.

Cost of Sales/Services

Cost of sales/services increased by RMB217.6 million, or 36.4%, from RMB597.9 million for the six months ended 30 June 2016 to RMB815.5 million for the Interim Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB117.4 million, or 36.2%, from RMB323.9 million for the six months ended 30 June 2016 to RMB441.3 million for the Interim Period. Gross profit margin was 35.1% for the Interim Period, the same with that for the six months ended 30 June 2016.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB24.5 million, or 48.3%, from RMB50.7 million for the six months ended 30 June 2016 to RMB75.2 million for the Interim Period. These expenses, amounting to 6.0% of revenue for the Interim Period, were higher than 5.5% for the six months ended 30 June 2016. This reflected the sharp increase of total revenue.

Administrative Expenses

Administrative expenses increased by RMB52.8 million, or 35.8%, from RMB147.4 million for the six months ended 30 June 2016 to RMB200.3 million for the Interim Period. Such increase primarily reflected the fact that depreciation expenses of fixed assets have not yet begun to contribute to the revenue, and the increase in staff costs, travelling expenses and office expenses in Russia.

Other (Losses)/Gain – Net

The Group recognized a net loss of RMB31.8 million for the Interim Period and net gain of RMB102.0 million for the six months ended 30 June 2016. The net loss recognized for the Interim Period primarily reflected an exchange loss of RMB37.5 million from the operating activities as a combined result of the depreciation of the United States Dollar (“USD”) and Hong Kong Dollar (“HKD”), and government grants of RMB5.5 million in relation to new and high-technology projects. The net gain recognized for the six months ended 30 June 2016 reflected a net gain of RMB93.6 million in foreign exchange gains and RMB7.2 million of government grants in relation to new and high-technology projects.

Finance Costs – Net

Finance costs – net decreased by RMB95.6 million, or 72.8%, from RMB131.4 million for the six months ended 30 June 2016 to RMB35.8 million for the Interim Period. Such decrease primarily reflected (i) an exchange gain of RMB46.6 million from the financing activities resulting from the depreciation of USD and HKD, while for the six months ended 30 June 2016 the exchange loss was RMB57.0 million; partly offset by (ii) the interest expense from bank borrowings increased from RMB70.0 million for the six months ended 30 June 2016 to RMB94.5 million for the Interim Period.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB96.0 million for the six months ended 30 June 2016 to RMB101.6 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB26.5 million for the six months ended 30 June 2016 and RMB29.0 million for the Interim Period. Effective tax rate was approximately 27.6% for the six months ended 30 June 2016 and 28.5% for the Interim Period.

Profit for the period attributable to equity owners of the Company

As a result of the foregoing, profit for the period attributable to equity owners of the Company decreased from RMB67.0 million for the six months ended 30 June 2016 to RMB65.4 million for the Interim Period.

Inventories

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Inventory	864,026	798,759
Turnover days of inventory (in days) ⁽¹⁾	186	236

- (1) Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 181 for the Interim Period and by 365 for the year ended 31 December 2016. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The decrease in inventory turnover days from 236 days as at 31 December 2016 to 186 days as at 30 June 2017 primarily reflected although the balance of inventory increased, much more cost of sales was recognized to the income statement in the Interim Period compared to that in 2016.

Trade and Other Receivables

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Trade receivables		
– Due from third parties	1,714,478	1,643,817
– Due from related parties	16,503	12,869
– Less: Provision for impairment of receivables	(33,511)	(33,511)
Trade receivables – net	1,697,470	1,623,175
Other receivables		
– Due from third parties	121,205	91,861
– Due from related parties	92,871	104,618
Other receivables	214,076	196,479
Bills receivable	18,771	34,073
Prepayments	248,917	184,894
Dividends receivable	5,036	1,550
Total	2,184,270	2,040,171

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

	As at 30 June 2017 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Trade receivables, net		
– Within 90 days	762,909	623,899
– Over 90 days and within 180 days	121,000	134,241
– Over 180 days and within 360 days	276,505	234,892
– Over 360 days and within 720 days	390,594	510,644
– Over 720 days	146,462	119,499
	<u>1,697,470</u>	<u>1,623,175</u>
Turnover days of trade receivables, net ⁽¹⁾	<u>240</u>	<u>298</u>

- (1) Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2016. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

As at 30 June 2017, trade receivables of RMB912.4 million remained unpaid beyond the general credit period but were not impaired, representing 53.8% of the Group's total trade receivables before impairment, 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 30 June 2017, 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 decrease in turnover days of trade receivables from 298 days as at 31 December 2016 to 240 days as at 30 June 2017 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was accelerated in the Interim Period.

Trade and Other Payables

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Bills payable	164,771	96,287
Trade payables		
– Due to related parties	–	–
– Due to third parties	595,065	511,514
Other payables		
– Due to related parties	72,138	97,386
– Due to third parties	66,873	38,579
Staff salaries and welfare payables	32,934	45,174
Advance from customers	52,097	95,367
Interest payables	6,335	21,807
Accrued taxes other than income tax	51,902	36,108
Dividends payable	27,854	1,463
Other liabilities	8,795	7,227
	<u>1,078,764</u>	<u>950,912</u>

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

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Trade payables, gross		
– Within 90 days	234,025	325,061
– Over 90 days and within 180 days	235,170	170,397
– Over 180 days and within 360 days	124,306	10,400
– Over 360 days and within 720 days	1,344	5,458
– Over 720 days	220	198
	595,065	511,514
Turnover days of trade payables ⁽¹⁾	123	176

- (1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2016. Average trade payables equals balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The increase in the balance of trade payables due to third parties from 31 December 2016 to 30 June 2017 primarily reflected the increase in purchase in the Interim Period.

Business Review

In the first half of 2017, the global oil and gas market gradually recovered yet still remained relatively weak as the average crude oil price continued to remain at a significantly lower level compared to historical high points despite the fact that the joint agreement to continue to limit production was reached by the Organization of the Petroleum Exporting Countries (“OPEC”) and certain non-OPEC oil producing countries. While most of our customers announced plans at beginning of the year to increase capital expenditures reflecting increased optimism towards an overall market recovery, yet they remained cautiously optimistic. Nevertheless, Hilong continued its strategy of international expansions and has secured several milestone contracts overseas. In terms of the financial results, the Company has achieved a healthy rebound during the Interim Period and realized a total revenue of RMB1,256.7 million, indicating an increase of 36.3% over the corresponding period of 2016. The profit attributable to equity owners of the Company amounted to RMB65.4 million for the Interim Period, representing a year-on-year decrease of 2.4%.

Oilfield Services

The oilfield services segment successfully maintained healthy operations in the first half of 2017 and remained as one of the core revenue sources of the Company. During the Interim Period, this segment realized a revenue of RMB374.4 million, representing an increase of 8.8% as compared to that of the same period in 2016. As the core business of the segment, the drilling services maintained a healthy growth rate, and achieved a revenue of RMB370.2 million during the Interim Period, representing an increase of 43.4% as compared to that of the same period in 2016. In the first half of 2017, the global oil and gas market gradually recovered but the recovery pace was slow. As the oil price remained at a relatively low level, the domestic oilfield service industry is generally faced with the predicament of a sharp decline in work volume and decrease in day rate. Nevertheless, capitalizing on its comprehensive and reliable technical abilities, high-end drilling rig fleet and technical service fleet, good QHSE performance and a diversified customer base, Hilong still maintained the normal operation of its drilling rig fleet and a relatively strong bargaining power amid the turbulent market. In the first half of 2017, the oilfield services of Hilong have efficiently improved its utilization rate of drilling rigs under the existing contracts. During the first half of 2017, we have also participated in a number of biddings in several countries, including the Middle East, Southeast Asia and Central Asia. In addition, the oilfield technological services business of Hilong has successfully secured a comprehensive integrated technological services contract in Pakistan, which marked a significant breakthrough and once again proved Hilong's technical strength, leading position and customer recognition in drilling services. After two years of incubation, Hilong has established its comprehensive services team in the field of comprehensive integrated technological services, covering a number of areas including drilling, completion fluids, drilling fluids, directional drilling, horizontal drilling, oil and gas testing, debris and sewage treatment and well completion. This business is another key development direction of Hilong's oilfield services in the future and is consistent with the Group's asset-light strategy. In the future, Hilong will continue to increase the capability of its technology team and the investment of resources to vigorously expand the content and scope of its standalone technical services and comprehensive services, and to develop it into a diversified revenue source for the oilfield services segment further promoting Hilong's transformation to a comprehensive integrated oilfield services provider.

Oilfield Equipment Manufacturing and Services

The oilfield equipment manufacturing and services segment achieved a total revenue of RMB645.8 million in the first half of 2017, representing an increase of 60.4% as compared to that of the same period in 2016. The revenue generated from the drill pipe and related products business amounted to RMB495.6 million, representing an increase of 54.5% as compared to that of 2016. The increase of revenue of the drill pipe and related products business was mainly attributed to the rapid growth of market share in the region of former Union of Soviet Socialist Republics ("USSR"). As early as in 2015, Hilong had precisely captured the market dynamics, and actively adjusted its strategic focus of its sales regions. Under the depression of global oil and gas industry, Hilong decided to focus its resources on developing drill pipes market in Russia and its surrounding areas. In November 2016, Hilong successfully signed an order for a large quantity of drill pipes and related products with Rosneft Oil Company ("Rosneft") and will provide drill pipes and related products for all nine sites of Rosneft in

Russia in 2017. In addition, in the first half of 2017, Hilong signed a bid order for a large quantity of drill pipes and related products with Uzbekistan's State Oil and Gas Company in Uzbekistan. In the first half of 2017, the production lines of Hilong's drill pipes have been operating in full capacity to supply products to Russia and its surrounding areas.

The revenue generated from our OCTG coating services business was RMB95.0 million during the reporting period, representing an increase of 37.7% as compared to that in 2016. The increase in coating services revenue was mainly due to the recovery of overall market and the technological advantage of Hilong's coating services and branding effects. The coating business has shown signs of recovery along with the recovery and decline in volatility of global oil price, and the increase in demand in global markets, in particular North America, Russia and China. Since the establishment of the OCTG coating services business, Hilong has maintained its leading position in the area of coating services of drill pipes. Over the recent years, Hilong has continued to be proactive and strived to expand its service scope and revenue sources.

Line Pipe Technology and Services

The line pipe technology and services segment realized a revenue of RMB198.3 million in the first half of 2017, representing an increase of 39.8% as compared to the same period of 2016. In the first half of 2017, Hilong continued to implement the development strategy emphasizing diversification, high-end development and internationalization for this segment. It aims at strengthening Hilong's domestic and international competitiveness in the fields of line pipe coating services, bi-metallic compound pipelines, pipeline inspection and CWC (concrete weighted coating) services through coordinating the development in both domestic and international markets, effectively expanding revenue sources, and minimizing market risks. In the first half of 2017, Hilong succeeded to obtain the order relating to the large-scale anti-corrosive coating and offshore concrete weighted coating services from Zhejiang Petrochemical Co., Limited, which further demonstrated the technological capability and rich experience of Hilong in terms of large-scale coating and offshore concrete weighted coating. During the first half of 2017, our pipeline coating services business won the APA-RCWP project and Proyek Pelaksanaan Pekerjaan Pengembangan Jaringan Daerah Dumai (PJDD) project in Indonesia. In addition, we have won the Pakistani PPL Project, offshore pipeline construction of Dongfang 13-2 gas field project, gas collection pipeline project of Keshen District 2. For CWC services contract, we have won the Mamu depot – Yushan oil transmission pipeline construction. For pipeline inspection, we have won the CNPC Chuandong gas pipeline, CNPC Chongqing gas mine and Tarim Oilfield Kashgar project. All of these have proved the diversification, high-end development and internationalization of our pipeline technology and services segment, and will efficiently enhance the overall profitability of the segment. The joint development of domestic and international markets is also conducive to the expansion of revenue sources and the balance of market risks, enhancing Hilong's international competitiveness in the field of pipeline coating services.

Offshore Engineering Services

In 2016, our offshore engineering services segment faces tough challenges caused by low oil price. In 2017, the offshore engineering services segment achieved a sound growth and successfully obtained several overseas project contracts. During the Interim Period, this segment realized a total revenue of RMB38.2 million, representing an increase of 15.2% as compared to that of the first half of 2016. In the first half of 2017, Hilong successfully secured an important contract from a Thailand-Malaysia joint venture, pursuant to which “Hilong 106”, the pipe-laying and derrick vessel, undertook work such as offshore pipeline laying, conduit rack, and the hoisting of upper modules for an offshore gas field development project at an oilfield in Southeast Asia. This was the first offshore engineering services contract Hilong obtained in the regions of Thailand and Malaysia, and laid a solid foundation for undertaking projects in these regions in the future. In the first half of 2017, in order to expand its business scope of the offshore engineering segment and by relying on the design and management capabilities of its professional project management team, Hilong, in addition to its offshore pipeline laying and derrick business, successfully completed the offshore transportation turnkey contract of the Large Steel Cylinder (experimental stage) Project of the New Sanya Airport (三亞新機場大型鋼筒(試驗段)項目). This laid a sound foundation for further securing the transportation and installation contract of the steel cylinder piling of the New Sanya Airport (三亞新機場鋼筒沉樁運輸與安裝合同).

Prospects

For the second half of 2017, Hilong remains confident that it will achieve a rebound in its operations of the overall business. The Company will still face multiple market challenges such as continued depressed level of international oil price and corresponding demand for the Company’s products and services. However, the Company believes that the worst market condition has passed and remains optimistic in relation to the future. In the past few years, Hilong has been very successful in quickly implementing business restructuring and venturing into new business areas in order to react to the fast changing market environment. Our unique and diversified business portfolio has helped us to weather the storm in the past couple years and the Company will continue to focus on its core operations while exploring potential business adjustments to accommodate the fast changing market environment, improve profitability and minimize market related risks.

Oilfield Services

Hilong's oilfield services segment will continue to show signs of rebound and growth as the international oil price stabilizes. As the oilfield services segment is directly impacted by the movement of the oil price, the Company believes that the worst market condition has passed in 2016 and the oilfield services maintain the momentum of steady development. For the existing contracts, the Company will maintain active dialogue with the counterparties and improve the operational efficiency of existing projects while ensuring the smooth continuation of contracts. In addition, by leveraging on Hilong's established brand, reputation and track record in the oilfield services, the Company will continue to actively seek new opportunities in new regions such as the Middle East. The Company will also continue to seek expansion opportunities in existing regions in which it operates. Meanwhile, after the success in obtaining the integrated comprehensive services contracts in Pakistan in first half of 2017, the Company will continue to expand and develop its comprehensive services and improve the capability of providing integrated comprehensive services. The comprehensive services business enables the Company to pursue an asset-light business model which is in-line with the overall strategy.

Oilfield Equipment Manufacturing and Services

Oilfield equipment manufacturing and services has always been the core business of the Company. The brand recognition and product quality of Hilong's drill pipes and OCTG coating is widely recognized both in China and globally. In line with the overall corporate strategy, oilfield equipment manufacturing and services expanded successfully overseas and the year 2017 will be a year that the Company achieves great success in the former USSR regions. Hilong secured large orders from companies such as Rosneft and Eriell Group International Limited, and became the sole supplier of drill pipes in its joint project with Uzbekistan's State Oil and Gas Company in Uzbekistan. In 2017, Hilong has secured several contracts that will ensure the full utilization of its manufacturing capacity. Going forward, with the increasing stabilization of the crude oil price as well as the solid foundation that Hilong has built in both domestic and overseas market, the prospects of this segment will continue to rebound.

In addition, the Company will continue its effort in promoting the sales of non-API drill pipe products and related services with high value added in both China and overseas markets in order to enhance profitability of the segment. As the oil price stabilizes gradually, the drill pipe and related products business, as one of Hilong's traditional core businesses, is also expected to return to the track of steady growth. In recent years, Hilong has deployed new production capacity or upgraded the existing production facility for its OCTG coating services business in key strategic locations both domestically and internationally in a planned manner. At present, the Company's major OCTG coating service plants are fully equipped with the capacities of applying coatings for the entire series of OCTG pipes and a variety of new types of pipes. This remarkably broadened the business scope of Hilong's OCTG coating services, effectively improved production efficiency, and fully prepared Hilong's technology and production capacity in the market in order to seize the growing demand for high-end coatings applied onto tubings and casings as well as other new types of pipes. Hilong will continue to focus on market development and actively nurture new market demands, so as to realize the optimization of production capacity and achieve steady growth during the new development era.

Line Pipe Technology and Services

Hilong's line pipe technology and services segment will continue to adopt a development strategy of diversification, high-end orientation and internationalization. Looking forward, the Company will continue to focus on its core service which is line pipe coating while putting in more effort on developing innovative products and services such as CWC and line pipe inspection services. Hilong has provided coating services for a number of domestic as well as international pipeline construction projects in recent years, accumulated extensive experiences and established good reputation among its customers with its qualification and capability widely accepted. While continuing to actively participate in major domestic projects and solidify its domestic market position, Hilong will continue to increase its efforts to explore overseas markets, particularly to seek opportunities to participate in major international line pipe construction projects for its new high-end businesses. Hilong has secured an important CWC contract in first half of 2017 and the Company will keep up with the momentum. By leveraging its offshore engineering business, Hilong will continue to spend time and effort to develop the market for high-end product such as CWC going forward. The Company will also accelerate the development of its pipeline inspection business to further explore the market and strengthen the market position. This will enable Hilong to extend and improve the industry chain for line pipe services, achieving the goal of growing into a one-stop line pipe solution provider as soon as possible.

Offshore Engineering Services

We acquired the offshore pipe-laying and derrick vessel (i.e. Hilong 106) and started the offshore engineering services segment in late 2014. Since then, we have successfully secured and completed a number of offshore platform construction and subsea pipelaying projects in both domestic and overseas market. Since 2016, we have started to expand our offshore engineering services segment to overseas market and have achieved satisfactory results in the Southeast Asia market, proving our design and operation capability. In 2016, the segment did not achieve great results due to the weakening of the offshore engineering industry resulting from weak crude oil price. In first half of 2017, we have secured a very important contract in the Thai-Malaysia Joint Development Area, demonstrating that our effort to invest in this segment is starting to bear fruits. Going forward, Hilong has secured a number of projects from the fourth quarter of 2017 through to the third quarter of 2018. This has reflected Hilong's offshore brand recognition and capability. Hilong will continue to broaden its customers base as well as types of projects (oil and gas related as well as civil projects) in both domestic and overseas market.

We strongly believe that, with our perseverance and hard work, Hilong will continue to generate stable returns to shareholders.

Liquidity and Financial Resources

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Net cash used in operating activities	(7,305)	(99,681)
Net cash used in investing activities	(152,178)	(154,870)
Net cash from/(used in) financing activities	248,907	(82,830)
Net increase/(decrease) in cash and cash equivalents	89,424	(337,381)
Exchange losses on cash and cash equivalents	(10,515)	(9,858)
Cash and cash equivalents at beginning of the period	657,422	821,364
Cash and cash equivalents at end of the period	736,331	474,125

As at 30 June 2017, cash and cash equivalents were mainly denominated in RMB, USD, Rubles, Naira, Rupee and Canadian dollars.

Operating Activities

Net cash used in operating activities for the Interim Period was RMB7.3 million, representing cash generated from operation of RMB139.8 million, offset by the interest payment of RMB127.5 million and income tax payment of RMB19.6 million.

Net cash used in operating activities for the six months ended 30 June 2016 was RMB99.7 million, representing cash used in operations of RMB2.6 million, interest payment of RMB78.5 million and income tax payment of RMB18.6 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB152.2 million, primarily reflecting payment of RMB93.8 million for purchases of property, plant and equipment, and the increase in deposit pledged to secure a line of credit with bank of RMB58.7 million.

Net cash used in investing activities for the six months ended 30 June 2016 was RMB154.9 million, primarily reflecting payment of RMB156.7 million for purchases of property, plant and equipment.

Financing Activities

Net cash generated from financing activities for the Interim Period was RMB248.9 million, primarily reflecting proceeds of RMB2,330.0 million from borrowings, offset by repayment of borrowings of RMB2,081.1 million.

Net cash used in financing activities for the six months ended 30 June 2016 was RMB82.8 million, primarily reflecting proceeds of RMB816.9 million from borrowings, offset by repayment of borrowings of RMB899.7 million.

Capital Expenditures

Capital expenditures were RMB131.0 million and RMB107.6 million for the six months ended 30 June 2016 and the Interim Period respectively. The decrease in capital expenditures for the Interim Period was mainly due to the Company's implementation of capital expenditures saving policy and achieved favourable results in the Interim Period.

Indebtedness

As at 30 June 2017, the outstanding indebtedness of RMB2,904.8 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 30 June 2017 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Non-current		
Bank borrowings – unsecured	1,956,402	1,703,570
Bank borrowings – secured	252,086	–
Less: Current portion of non-current borrowings	(324,180)	(386,159)
	<u>1,884,308</u>	<u>1,317,411</u>
Current		
Bank borrowings – secured	247,088	512,223
Bank borrowings – unsecured	449,251	532,296
Current portion of non-current borrowing	324,180	386,159
	<u>1,020,519</u>	<u>1,430,678</u>
	<u>2,904,827</u>	<u>2,748,089</u>

As at 30 June 2017, bank borrowings of RMB2,378.7 million were obtained at fixed rate (31 December 2016: RMB788.7 million).

The bank borrowings of RMB227.1 million were secured by certain bank deposits of the Group, with a carrying amount of RMB161.7 million as at 30 June 2017.

As at 31 December 2016, bank borrowings of RMB11.2 million were secured by commercial acceptance bills of the Group. As at 30 June 2017, the Group has fully repaid such borrowings.

As at 30 June 2017, Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., a subsidiary of the Group, has borrowed a bank borrowing of RMB20 million (31 December 2016: RMB20 million), which was secured by the non-controlling interest of the Group.

Gearing Ratio

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

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

The gearing ratios as at 30 June 2017 and 31 December 2016 are as follows:

	As at 30 June 2017 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Total borrowings	2,904,827	2,748,089
Less: Cash and cash equivalents	(736,331)	(657,422)
Net debt	2,168,496	2,090,667
Total equity	3,493,604	3,491,878
Total capital	5,662,100	5,582,545
Gearing ratio	38.30%	37.45%

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 13.5% appreciation of RMB against the USD from 21 July 2005 to 30 June 2017. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching

the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 40.5% and 37.7% of the total revenue of the Company for the six months ended 30 June 2016 and the Interim Period, respectively.

Staff and Remuneration Policy

As at 30 June 2017, the total number of full-time employees employed by the Group was 2,804 (31 December 2016: 2,608). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2017:

On-site workers	1,669
Administrative	496
Research and development	137
Engineering and technical support	320
Company management	42
Sales, marketing and after-sales services	140
	2,804

Employee costs excluding the Directors' remuneration totalled RMB210,915,913 for the Interim Period.

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

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

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

Events after the End of the Interim Period

There were no important events affecting the Company nor any of its subsidiaries since the end of the Interim Period.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the Interim Period, except that:

- (a) 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; and
- (b) in respect of code provision E.1.2 of the Corporate Governance Code, Mr. ZHANG Jun, the Chairman of the Board, was unable to attend the 2017 annual general meeting held on 23 June 2017 due to unexpected flight cancellation resulting from bad weather conditions.

Model Code for Securities Transactions by Directors

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

REVIEW OF INTERIM RESULTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDENDS

On 11 July 2017, a final dividend of HK1.0 cent per share of the Company, amounting to a total dividend of approximately HK\$16,964,000 (equivalent to approximately RMB14,723,000) for the year ended 31 December 2016, was paid to the shareholders of the Company.

The Board resolved not to declare any interim dividend for the Interim Period.

PUBLICATION OF INTERIM RESULTS

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

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

APPRECIATION

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

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

25 August 2017

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. WONG Man Chung Francis, Mr. LIU Haisheng and Mr. SHI Zheyang.