HILONG

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 2018

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB3,222.4 million, representing an increase of approximately 20.7% as compared with 2017.
- Gross profit was approximately RMB1,020.7 million, representing an increase of approximately 20.7% as compared with 2017. Gross profit margin was 31.7% in 2018, nearly the same as compared with 2017.
- Profit for the year was approximately RMB150.5 million, representing an increase of approximately 19.8% as compared with 2017. Profit attributable to equity owners of the Company for the year was approximately RMB148.7 million, representing an increase of approximately 24.8% as compared with 2017.
- Basic earnings per share was approximately RMB0.0877, representing an increase of 24.8% as compared with 2017.

The Board resolved to recommend a final dividend of HK1.0 cent per share for the year ended 31 December 2018, 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**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**Hilong**" or "**us**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRS**") for the year ended 31 December 2018 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

		Year ended 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
Revenue	*4*	**3,222,416**	2,669,347
Cost of sales		**(2,201,734)**	(1,823,746)
Gross profit		**1,020,682**	845,601
Selling and marketing expenses		**(124,227)**	(168,650)
Administrative expenses		**(405,810)**	(357,424)
Net impairment losses on financial assets		**(12,418)**	–
Other gains/(losses) – net	*7*	**56,881**	(94,850)
Operating profit		**535,108**	224,677
Finance income		**9,105**	138,722
Finance costs		**(318,791)**	(196,397)
Finance costs – net	*8*	**(309,686)**	(57,675)
Share of profit of investments accounted for using equity method		**7,121**	4,611
Profit before income tax		**232,543**	171,613
Income tax expense	*9*	**(82,012)**	(45,913)
Profit for the year		**150,531**	125,700
Profit attributable to:			
Equity owners of the Company		**148,741**	119,150
Non-controlling interests		**1,790**	6,550
		150,531	125,700
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*10*	**0.0877**	0.0702
Diluted earnings per share	*10*	**0.0877**	0.0702

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

		As at 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,261,017**	2,915,155
Lease prepayments		**83,110**	86,440
Intangible assets		**212,627**	183,406
Investments accounted for using equity method		**39,230**	55,629
Deferred income tax assets		**211,348**	180,815
Other long-term assets		**57,244**	21,460
		3,864,576	3,442,905
Current assets			
Inventories		**889,138**	848,700
Financial assets at fair value through profit or loss		**–**	24,040
Trade and other receivables	*5*	**2,084,897**	2,093,884
Prepayment		**176,959**	166,312
Current income tax recoverable		**37,910**	35,695
Restricted cash		**184,479**	150,006
Cash and cash equivalents		**661,738**	389,014
		4,035,121	3,707,651
Total assets		**7,899,697**	7,150,556
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*12*	**141,976**	141,976
Other reserves		**1,139,627**	1,136,669
Currency translation differences		**(92,848)**	(114,649)
Retained earnings		**2,120,614**	2,067,512
		3,309,369	3,231,508
Non-controlling interests		**212,641**	232,267
Total equity		**3,522,010**	3,463,775

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**2,494,673**	1,905,440
Deferred income tax liabilities		**48,185**	42,902
Deferred revenue		**38,311**	21,783
		2,581,169	1,970,125
Current liabilities			
Trade and other payables	*6*	**1,099,189**	1,005,499
Advances from customers		**–**	114,175
Contract liabilities		**71,465**	–
Current income tax liabilities		**41,117**	47,124
Borrowings		**575,942**	544,012
Deferred revenue		**8,805**	5,846
		1,796,518	1,716,656
Total liabilities		**4,377,687**	3,686,781
Total equity and liabilities		**7,899,697**	7,150,556

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		Capital and reserves attributable to equity owners						
	Note	Ordinary shares *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Cumulative Translation differences *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2017		141,976	1,133,443	1,963,797	15,277	3,254,493	237,385	3,491,878
Profit for the year		–	–	119,150	–	119,150	6,550	125,700
Other comprehensive losses		–	–	–	(129,926)	(129,926)	–	(129,926)
Total comprehensive income/(losses) for the year		–	–	119,150	(129,926)	(10,776)	6,550	(4,226)
Appropriation to statutory reserve		–	819	(819)	–	–	–	–
Transactions with owners								
2013 Share Option Scheme		–	2,407	–	–	2,407	–	2,407
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(11,668)	(11,668)
Dividends in respect of 2016	*11*	–	–	(14,616)	–	(14,616)	–	(14,616)
As at 31 December 2017		141,976	1,136,669	2,067,512	(114,649)	3,231,508	232,267	3,463,775
As at 31 December 2017		141,976	1,136,669	2,067,512	(114,649)	3,231,508	232,267	3,463,775
Change in accounting policy – HKFRS 9	*3*	–	–	(79,013)	–	(79,013)	–	(79,013)
As at 1 January 2018		**141,976**	**1,136,669**	**1,988,499**	**(114,649)**	**3,152,495**	**232,267**	**3,384,762**
Profit for the year		**–**	**–**	**148,741**	**–**	**148,741**	**1,790**	**150,531**
Other comprehensive gains		**–**	**–**	**–**	**21,801**	**21,801**	**–**	**21,801**
Total comprehensive income for the year		**–**	**–**	**148,741**	**21,801**	**170,542**	**1,790**	**172,332**
Appropriation to statutory reserve		**–**	**1,892**	**(1,892)**	**–**	**–**	**–**	**–**
Transactions with owners								
2013 Share Option Scheme		**–**	**1,066**	**–**	**–**	**1,066**	**–**	**1,066**
Transactions with non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(16,042)**	**(16,042)**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(5,374)**	**(5,374)**
Dividends in respect of 2017	*11*	**–**	**–**	**(14,734)**	**–**	**(14,734)**	**–**	**(14,734)**
As at 31 December 2018		**141,976**	**1,139,627**	**2,120,614**	**(92,848)**	**3,309,369**	**212,641**	**3,522,010**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1 GENERAL INFORMATION OF THE GROUP

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

(a) New and amended standards adopted by the Group

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

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

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

(b) New standards and interpretations not yet adopted

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

- HKFRS 16 'Leases', effective for the accounting period beginning on or after 1 January 2019.

- Interpretation 23 'Uncertainty over Income Tax Treatment', effective for the accounting period beginning on or after 1 January 2019.

- Amendments to HKAS 28 'Long-team interests in Associates and Joint Ventures', effective for the accounting period beginning on or after 1 January 2019.

- Annual Improvements to HKFRS Standards 2015–2017 Cycle, effective for the accounting period beginning on or after 1 January 2019.

- Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', the effective date of this amendment has been deferred by IASB.

- Amendments to HKFRS 9 'Prepayment Features with Negative Compensation', effective for the accounting period beginning on or after 1 January 2019.

- Amendments to HKAS 19 'Plan Amendment, Curtailment or Settlement', effective for the accounting period beginning on or after 1 January 2019.

- Amendments to HKFRS 3 'Business Combinations', effective for the accounting period beginning on or after 1 January 2020.

- Amendments to conceptual Framework of IASB, effective for the accounting period beginning on or after 1 January 2020.

- HKFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2021.

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

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

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

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

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

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

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

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

3.1 Impact on the financial statements

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

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

3.2 HKFRS 9, "Financial Instruments"

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

3.2.1 Impact of adoption

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

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

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

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

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

3.2.2 Accounting policies applied from 1 January 2018

Accounting policies applied by the Group from 1 January 2018 has been modified according to the adoption.

3.3 HKFRS 15 – Revenue from Contracts with Customers

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

3.3.1 Impact on adoption

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

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

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

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

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

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

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

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

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

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

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

3.3.2 Accounting policies applied from 1 January 2018

Accounting policies applied by the Group from 1 January 2018 has been modified according to the adoption.

4 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

(a) Revenue

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

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

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2018 is as follows:

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

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

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

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2017 is as follows:

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

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

(c) **Geographical segments**

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Russia, Central Asia and East Europe	**918,137**	908,926
The PRC	**873,600**	799,886
South Asia and Southeast Asia	**615,405**	427,483
North and South America	**399,308**	239,731
Africa	**279,867**	238,222
Middle East	**133,218**	53,916
Others	**2,881**	1,183
	3,222,416	2,669,347

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

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

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

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

(d) Assets and liabilities related to contracts with customers

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

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

(i) Significant changes in contract assets and liabilities

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

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

(ii) Revenue recognised in relation to contract liabilities

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

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

(iii) Assets recognised from costs to fulfil a contract

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

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

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

5 TRADE AND OTHER RECEIVABLES

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

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

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
– USD	**1,031,095**	990,387
– RMB	**750,770**	806,109
– RUB	**166,476**	178,375
– AED	**64,092**	19,531
– EUR	**30,837**	1,733
– KZT	**12,869**	33,783
– NGN	**10,783**	21,370
– CAD	**10,755**	27,591
– PKR	**3,845**	11,731
– Other currencies	**3,375**	3,274
	2,084,897	2,093,884

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

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

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

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

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

(iii) Details of other receivables are as follows:

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

6 TRADE AND OTHER PAYABLES

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

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

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

As at 31 December 2018 and 2017, all trade and other payables of the Group were non-interest bearing, and their fair values, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

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

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

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

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

7 OTHER GAINS/(LOSSES) – NET

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

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

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

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

8 FINANCE COSTS – NET

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

9 INCOME TAX EXPENSE

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

The difference between the actual income tax charge in the consolidated income statement and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**232,543**	171,613
Tax calculated at statutory tax rates applicable to each group entity	**51,228**	29,889
Tax effect of:		
Expenses not deductible for tax purpose	**5,057**	1,775
Additional deduction for research and development expenses (b)	**(8,242)**	(6,728)
Utilisation of previously unrecognised tax losses	**(12,957)**	(5,216)
Tax losses of subsidiaries not recognised	**46,926**	26,193
Tax charge	**82,012**	45,913

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

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

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

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

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

Certain subsidiaries are qualified for new/high-tech technology enterprises status or incorporated in the western region of the Mainland China and engaged in encouraged industries, and therefore enjoy a preferential income tax rate of 15% (see Note 9(a) below).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Additional deduction for research and development expenses

Pursuant to the CIT Law, an additional tax deduction relating to research and development expenses incurred is allowed, after the approval by the tax authorities is obtained. This additional allowed deduction is calculated at 75% of the actual research and development expenses incurred.

10 EARNINGS PER SHARE

Basic earnings per share

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

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

Diluted earnings per share

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

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

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

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

11 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 22 March 2019, a final dividend of HKD0.0100 (equivalent to approximately RMB0.0088) per share for the year ended 31 December 2018 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 12 July 2019 to the shareholders of the Company whose names appear on the register of members of the Company as at 4 July 2019. The total amount is estimated to be HKD16,964,000 (equivalent to approximately RMB14,928,000). These financial statements do not reflect this dividend payable.

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

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

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

12 ORDINARY SHARES

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

13 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 22 March 2019, a dividend of HKD0.0100 (equivalent to approximately RMB0.0088) per share was proposed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost of Sales/Services

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

Gross Profit and Gross Profit Margin

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Other Gain/(Losses) – Net

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

EBITA margin

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

Finance Costs – Net

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

Profit before Income Tax

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

Income Tax Expense

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

Profit for the year attributable to equity owners of the Company

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

Inventories

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

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

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2017 and 2018. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

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

Trade and Other Receivables

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

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

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

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

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2017 and 2018. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

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

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

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

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

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

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

Trade and Other Payables

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

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

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

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

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2017 and 2018. Average trade payables equals to balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

Liquidity and Financial Resources

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

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

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

Operating Activities

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

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

Investing Activities

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

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

Financing Activities

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

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

Capital Expenditures

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

Indebtedness

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

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

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

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

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

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

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

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

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

Gearing Ratio

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

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

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

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

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 15.0% appreciation of RMB against the USD from 21 July 2005 to 31 December 2018. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 37.7% and 47.8% of the total revenue of the Group in 2017 and 2018, respectively.

Staff and Remuneration Policy

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

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

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

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

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

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

BUSINESS REVIEW

Recovery in all main segments

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

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

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

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

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

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

Oilfield Services – established businesses with more high end customers

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

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

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

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

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

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

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

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

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

R&D and Innovation

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

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

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

Outlook

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

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

Oilfield Equipment Manufacturing and Services

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

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

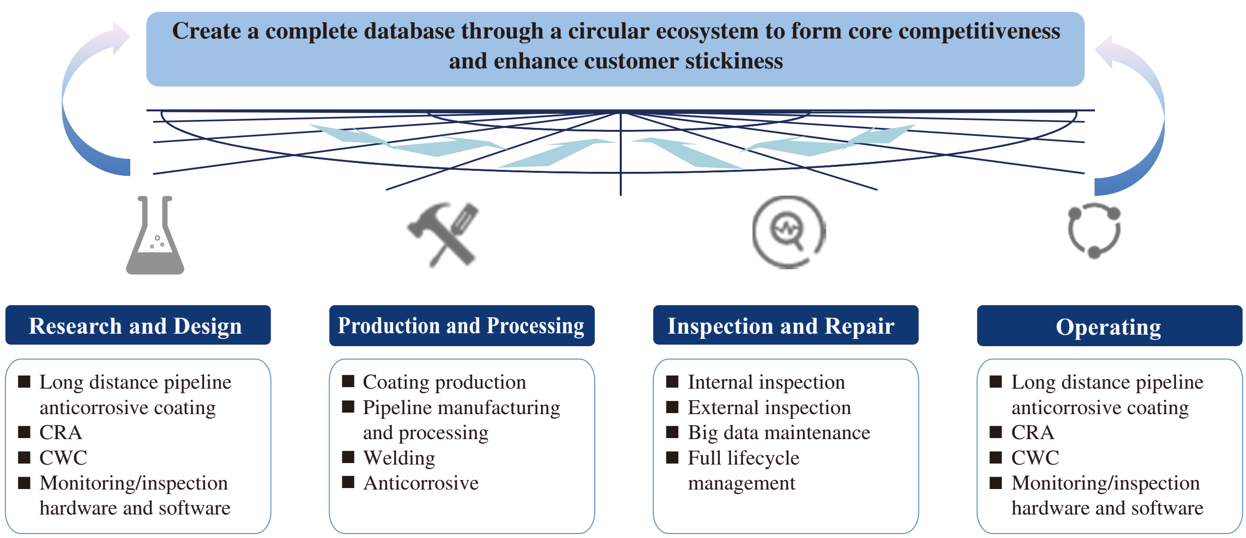
Oilfield Services

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

Line Pipe Technology and Services

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

Pipeline Integrated Full Lifecycle Management



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

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

Offshore Engineering Services

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

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

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in 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 2018.

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 year ended 31 December 2018.

REVIEW OF ANNUAL 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 annual results for the year ended 31 December 2018 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 2018 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 2018.

DIVIDENDS

The Board resolved to recommend the payment of a final dividend of HK1.0 cent per share (2017: HK1.0 cent per share), amounting to approximately HK$17.0 million (equivalent to approximately RMB14.9 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2018, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "**AGM**"). Upon approval of the shareholders at the AGM, the proposed final dividend will be paid on 12 July 2019 to the shareholders of the Company whose names appear on the register of members of the Company as at 4 July 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as shareholders of the Company to attend and vote at the AGM to be held on 21 June 2019, the register of members of the Company will be closed from Tuesday, 18 June 2019 to Friday, 21 June 2019, 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 Monday, 17 June 2019.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 2 July 2019 to Thursday, 4 July 2019, 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 Friday, 28 June 2019.

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 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and become available on the same websites in due course.

APPRECIATION

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

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

22 March 2019

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 Dr. 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 Zheyan.