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Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB921.8 million, representing a decrease of approximately 29.1% as compared with the same period in 2015.
- Gross profit was approximately RMB323.9 million, representing a decrease of approximately 24.7% as compared with the same period in 2015. Gross profit margin was 35.1%, representing an increase of 2% as compared with the same period in 2015.
- Profit before income tax was approximately RMB96.0 million, representing a decrease of approximately 30.4% as compared with the same period in 2015.
- Profit attributable to equity owners of the Company was approximately RMB67.0 million, representing a decrease of approximately 38.4% as compared with the same period in 2015.
- The Board resolved not to declare any interim dividend for the six months ended 30 June 2016.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Hilong Holding Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**" or "**Hilong**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRSs**") for the six months ended 30 June 2016 (the "**Interim Period**") as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended 30 June 2016

		(Unaudited) Six months ended 30 June	
	Note	**2016**	2015
		RMB'000	*RMB'000*
Revenue	*4(a)*	**921,810**	1,300,474
Cost of sales		**(597,928)**	(870,569)
Gross profit		**323,882**	429,905
Selling and marketing expenses		**(50,717)**	(48,704)
Administrative expenses		**(147,447)**	(182,778)
Other gain/(losses) – net		**101,961**	(12,954)
Operating profit		**227,679**	185,469
Finance income		**3,020**	5,570
Finance costs		**(134,411)**	(52,542)
Finance costs – net		**(131,391)**	(46,972)
Share of losses of investments accounted for using equity method		**(312)**	(452)
Profit before income tax		**95,976**	138,045
Income tax expense	*5*	**(26,493)**	(29,023)
Profit for the period		**69,483**	109,022
Profit attributable to:			
Equity owners of the Company		**66,988**	108,759
Non-controlling interests		**2,495**	263
		69,483	109,022
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	*6*	**0.0395**	0.0641
– Diluted	*6*	**0.0395**	0.0641

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016

	(Unaudited) Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Profit for the period	**69,483**	109,022
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**45,105**	(13,889)
Total comprehensive income for the period	**114,588**	95,133
Attributable to:		
Equity owners of the Company	**112,093**	94,870
Non-controlling interests	**2,495**	263
	114,588	95,133

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2016

	Note	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**3,129,592**	3,037,789
Lease prepayments		**89,626**	90,694
Intangible assets		**163,209**	156,355
Investments accounted for using equity method		**58,909**	59,221
Deferred income tax assets	*5*	**130,955**	131,144
Other long-term assets		**5,278**	1,563
		3,577,569	3,476,766
Current assets			
Inventories		**767,138**	804,194
Trade and other receivables	*8*	**2,028,023**	1,857,619
Current income tax recoverable		**37,451**	32,588
Restricted cash		**66,527**	71,868
Cash and cash equivalents		**474,125**	821,364
		3,373,264	3,587,633
Total assets		**6,950,833**	7,064,399
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	*9*	**141,976**	141,976
Other reserves		**1,129,491**	1,127,528
Retained earnings		**1,908,209**	1,869,990
Currency translation differences		**(72,340)**	(117,445)
		3,107,336	3,022,049
Non-controlling interests		**236,582**	234,087
Total equity		**3,343,918**	3,256,136

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (continued)
As at 30 June 2016

	Note	**(Unaudited) 30 June 2016** *RMB'000*	(Audited) 31 December 2015 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**1,539,977**	1,084,464
Deferred income tax liabilities	*5*	**49,371**	45,193
Deferred revenue		**26,901**	23,171
		1,616,249	1,152,828
Current liabilities			
Trade and other payables	*10*	**872,250**	1,058,234
Current income tax liabilities		**12,425**	3,625
Borrowings		**1,103,726**	1,592,448
Derivative financial instruments		**362**	1,006
Deferred revenue		**1,903**	122
		1,990,666	2,655,435
Total liabilities		**3,606,915**	3,808,263
Total equity and liabilities		**6,950,833**	7,064,399

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

		(Unaudited) 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 2015		141,972	1,117,187	1,778,090	(118,809)	2,918,440	224,809	3,143,249
Comprehensive income								
Profit for the period		–	–	108,759	–	108,759	263	109,022
Other comprehensive income								
Currency translation differences		–	–	–	(13,889)	(13,889)	–	(13,889)
Total comprehensive income for the period		–	–	108,759	(13,889)	94,870	263	95,133
Transactions with owners								
Pre-IPO share option plan		–	769	–	–	769	–	769
2013 Share Option Scheme		–	3,522	–	–	3,522	–	3,522
Exercise of share options		4	95	–	–	99	–	99
Dividends in respect of 2014	7	–	–	(66,925)	–	(66,925)	–	(66,925)
Total transaction with owners		4	4,386	(66,925)	–	(62,535)	–	(62,535)
As at 30 June 2015		141,976	1,121,573	1,819,924	(132,698)	2,950,775	225,072	3,175,847
As at 1 January 2016		141,976	1,127,528	1,869,990	(117,445)	3,022,049	234,087	3,256,136
Comprehensive income								
Profit for the period		–	–	66,988	–	66,988	2,495	69,483
Other comprehensive income								
Currency translation differences		–	–	–	45,105	45,105	–	45,105
Total comprehensive income for the period		–	–	66,988	45,105	112,093	2,495	114,588
Transactions with owners								
Pre-IPO share option plan		–	140	–	–	140	–	140
2013 Share Option Scheme		–	1,823	–	–	1,823	–	1,823
Dividends in respect of 2015	7	–	–	(28,769)	–	(28,769)	–	(28,769)
Total transaction with owners		–	1,963	(28,769)	–	(26,806)	–	(26,806)
As at 30 June 2016		141,976	1,129,491	1,908,209	(72,340)	3,107,336	236,582	3,343,918

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2016

	(Unaudited) Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Cash flow from operating activities		
Cash flow (used in)/generated from operations	**(2,563)**	261,816
Interest paid	**(78,531)**	(44,402)
Income tax paid	**(18,587)**	(51,306)
Net cash (used in)/generated from operating activities	**(99,681)**	166,108
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	**–**	27
Purchases of property, plant and equipment	**(156,666)**	(136,878)
Purchases of intangible assets	**–**	(650)
Dividends received	**1,796**	–
Net cash used in investing activities	**(154,870)**	(137,501)
Cash flow from financing activities		
Proceeds from borrowings	**816,868**	235,044
Repayments of borrowings	**(899,698)**	(295,517)
Proceeds from share options exercised	**–**	99
Net cash used in financing activities	**(82,830)**	(60,374)
Net decrease in cash and cash equivalents	**(337,381)**	(31,767)
Exchange losses on cash and cash equivalents	**(9,858)**	(107)
Cash and cash equivalents at beginning of the period	**821,364**	548,057
Cash and cash equivalents at end of the period	**474,125**	516,183

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

2 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2016.

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

(a) New and amended standards adopted by the Group:

The following amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2016:

- HKFRS 14 "Regulatory Deferral Accounts".
- Amendment to HKFRS 11 "Accounting for acquisitions of interests in joint operation".
- Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortisation".
- Amendment to HKAS 27 "Equity method in separate financial statements".
- Annual improvements 2014.
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 "Investment entities: applying the consolidation exception".
- Amendments to HKAS 1 "Disclosure initiative".

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

2 ACCOUNTING POLICIES (Continued)

(b) New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted by the Group:

- HKAS 12 "Income taxes", effective for the accounting period beginning on or after 1 January 2017.

- HKAS 7 "Statement of cash flow", effective for the accounting period beginning on or after 1 January 2017.

- HKFRS 15 "Revenue from contracts with customers", effective for the accounting period beginning on or after 1 January 2018.

- HKFRS 9 "Financial Instruments", effective for the accounting period beginning on or after 1 January 2018.

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

Management is in the process of assessing the impact of the above standards and interpretations and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

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

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

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

3 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to consolidated financial statements for the year ended 31 December 2015.

4 SEGMENT INFORMATION

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

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

4 SEGMENT INFORMATION (Continued)

The corporate overheads are not considered as the business segment expenses during the six months ended 30 June 2016 (corporate overheads expenses during the six months ended 30 June 2015 were restated) as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

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

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

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

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2016 and 2015 are set out as follows:

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Oilfield equipment manufacturing and services	**402,552**	339,071
Line pipe technology and services	**141,839**	106,465
Oilfield services	**344,231**	443,395
Offshore engineering services	**33,188**	411,543
	921,810	1,300,474

4 **SEGMENT INFORMATION (Continued)**

(b) Segment information

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

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

	As at 30 June 2016 (Unaudited)				
Business segment	**Oilfield equipment manufacturing and services** *RMB'000*	**Line pipe technology and services** *RMB'000*	**Oilfield services** *RMB'000*	**Offshore engineering services** *RMB'000*	**Total** *RMB'000*
Segment assets	2,772,189	606,156	2,227,354	1,286,225	6,891,924
Investments accounted for using equity method					58,909
Total assets					6,950,833
Total liabilities	3,047,343	204,688	325,811	29,073	3,606,915

4 SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2015 is as follows:

	Six months ended 30 June 2015 (Unaudited)				
Business segment	Oilfield equipment manufacturing and services *RMB'000*	Line pipe technology and services *RMB'000*	Oilfield services *RMB'000*	Offshore engineering services *RMB'000*	Total *RMB'000*
Revenue					
Segment revenue	383,291	191,143	443,395	411,543	1,429,372
Inter-segment sales	(44,220)	(84,678)	–	–	(128,898)
Revenue from external customers	339,071	106,465	443,395	411,543	1,300,474
Results					
Segment gross profit	137,308	29,724	158,544	104,329	429,905
Segment profit/(losses)	25,219	(1,461)	93,649	98,063	215,470
Corporate overheads					(30,001)
Operating profit					185,469
Finance income					5,570
Finance costs					(52,542)
Share of losses of investments accounted for using equity method					(452)
Profit before income tax					138,045
Other information					
Depreciation of property, plant and equipment	32,303	6,282	42,517	13,869	94,971
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	347	474	11	–	832
Capital expenditure	13,082	29,820	92,212	60,058	195,172

	As at 30 June 2015 (Unaudited)				
Business segment	Oilfield equipment manufacturing and services *RMB'000*	Line pipe technology and services *RMB'000*	Oilfield services *RMB'000*	Offshore engineering services *RMB'000*	Total *RMB'000*
Segment assets	2,814,877	532,692	1,875,178	1,477,080	6,699,827
Investments accounted for using equity method					56,208
Total assets					6,756,035
Total liabilities	2,831,459	201,842	325,244	221,643	3,580,188

4 SEGMENT INFORMATION (Continued)

(c) Geographical segments

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

	(Unaudited) **Six months ended 30 June**	
	2016	2015
	RMB'000	*RMB'000*
The PRC	**299,405**	700,176
Russia, Central Asia and East Europe	**268,876**	81,454
North and South America	**153,842**	330,373
South Asia	**98,367**	53,438
Africa	**80,183**	94,847
Middle East	**19,938**	33,828
Others	**1,199**	6,358
	921,810	1,300,474

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June	31 December
	2016	2015
	RMB'000	*RMB'000*
The PRC	**1,986,361**	2,100,118
North and South America	**450,450**	492,723
Africa	**308,684**	318,813
South Asia	**256,330**	174,119
Russia, Central Asia and East Europe	**250,952**	69,291
Middle East	**129,650**	129,774
	3,382,427	3,284,838

4 SEGMENT INFORMATION (Continued)

(c) Geographical segments (Continued)

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

	(Unaudited) Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
South Asia	**70,540**	–
Russia, Central Asia and East Europe	**57,331**	132
The PRC	**26,911**	116,878
Africa	**1,486**	56,661
Middle East	**849**	285
North and South America	**(26,151)**	21,216
	130,966	195,172

5 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**22,523**	34,144
Deferred income tax	**3,970**	(5,121)
Income tax expense	**26,493**	29,023

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the six months ended 30 June 2016 and 2015.

5 INCOME TAX EXPENSE (Continued)

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 34% prevailing in the places in which the Group operated for the six months ended 30 June 2016 (for the six months ended 30 June 2015: 15% to 34%).

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

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

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

Pursuant to Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate can may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("Hilong Energy") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2013 to 2015. Hilong Energy is in the process of renewal of the qualification during this period.

As at 30 June 2016, the permanently reinvested unremitted earnings totalled RMB1,105,700,000 (31 December 2015: RMB1,029,280,000).

6 EARNINGS PER SHARE

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

	(Unaudited) Six months ended 30 June	
	2016	2015
Profit attributable to equity owners of the Company (RMB'000)	**66,988**	108,759
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,439**	1,696,399
Basic earnings per share (RMB per share)	**0.0395**	0.0641

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

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 30 June) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 30 June 2016, there were 29,174,300 (30 June 2015: 30,775,900) share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2016 and 2015, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 30 June 2016, there were 17,221,200 (30 June 2015: 18,728,200) share options outstanding related to 2013 Share Option Scheme. For the six months ended 30 June 2016 and 2015, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

7 DIVIDENDS

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

The dividend in respect of 2014 of HKD0.0500 (equivalent to RMB0.0395) per share, amounting to a total dividend of HKD84,822,000 (equivalent to RMB66,925,000), was approved at the Company's annual general meeting on 26 June 2015. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2015.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2016 ***RMB'000***	(Audited) 31 December 2015 *RMB'000*
Bills receivable	**23,062**	34,615
Trade receivables (a)		
– Due from third parties	**1,685,096**	1,510,650
– Due from related parties	**59,378**	38,316
Trade receivables – gross	**1,744,474**	1,548,966
Less: Provision for impairment of receivables	**(27,237)**	(27,237)
Trade receivables – net	**1,717,237**	1,521,729
Dividends receivable	**1,550**	3,346
Other receivables	**161,321**	164,092
Prepayments	**124,853**	133,837
	2,028,023	1,857,619

As at 30 June 2016 and 31 December 2015, the fair values of the trade and other receivables of the Group, excluding prepayments which are not financial assets, approximated their carrying amounts.

8 TRADE AND OTHER RECEIVABLES (Continued)

(a) The credit period granted to customers is between 30 to 270 days. No interest is charged on the trade receivables. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of services. This provision has been determined by reference to past default experience. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at 30 June 2016 and 31 December 2015 was as follows:

	(Unaudited) 30 June 2016 *RMB'000*	(Audited) 31 December 2015 *RMB'000*
Trade receivables, gross		
– Within 90 days	**594,732**	725,537
– Over 90 days and within 180 days	**165,788**	264,531
– Over 180 days and within 360 days	**517,654**	236,135
– Over 360 days and within 720 days	**324,048**	231,735
– Over 720 days	**142,252**	91,028
	1,744,474	1,548,966

9 ORDINARY SHARES

	Note	**(Unaudited)** Number of ordinary shares	Nominal value of ordinary shares *(In HKD)*	Equivalent nominal value of ordinary shares *(In RMB)*
Opening balance as at 1 January 2015		1,696,390,600	169,639,060	141,971,504
Issue of shares upon exercise of options	*(a)*	48,000	4,800	4,002
As at 30 June 2015		1,696,438,600	169,643,860	141,975,506
Balances as at 1 January 2016 and 30 June 2016		1,696,438,600	169,643,860	141,975,506

(a) During the six months ended 30 June 2015, a total of 48,000 ordinary shares at par value of HKD0.1 per share were issued for cash at the exercise price of HKD2.6 per share as a result of the exercise of share options.

10 TRADE AND OTHER PAYABLES

	(Unaudited) **30 June** **2016** ***RMB'000***	(Audited) 31 December 2015 *RMB'000*
Bills payable	**70,359**	75,393
Trade payables:		
– Due to third parties	**560,639**	702,395
Other payables:		
– Due to related parties	**29,306**	31,483
– Due to third parties	**39,031**	48,853
Advance from customers	**71,436**	70,913
Staff salaries and welfare payables	**29,065**	43,022
Interest payables	**5,646**	15,286
Accrued taxes other than income tax	**28,693**	53,374
Dividends payable	**30,232**	1,463
Other liabilities	**7,843**	16,052
	872,250	1,058,234

As at 30 June 2016 and 31 December 2015, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding the advances from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

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

	(Unaudited) **30 June** **2016** ***RMB'000***	(Audited) 31 December 2015 *RMB'000*
Trade payables, gross		
– Within 90 days	**244,971**	537,038
– Over 90 days and within 180 days	**171,505**	101,272
– Over 180 days and within 360 days	**135,230**	62,662
– Over 360 days and within 720 days	**7,918**	1,275
– Over 720 days	**1,015**	148
	560,639	702,395

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

	Six months ended 30 June			
	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Oilfield equipment manufacturing and services				
– Drill pipes	**320,733**	**34.8**	207,927	16.0
– Oil country tubular goods ("OCTG") coating services	**68,978**	**7.5**	111,949	8.6
– Drill pipe components	**1,859**	**0.2**	3,887	0.3
– Hardbanding	**2,399**	**0.3**	7,358	0.6
– Others	**8,583**	**0.9**	7,950	0.6
Subtotal	**402,552**	**43.7**	339,071	26.1
Line pipe technology and services				
– OCTG coating materials	**22,271**	**2.4**	11,321	0.9
– Oil and gas line pipe coating materials	**46,894**	**5.1**	42,064	3.2
– Oil and gas line pipe coating services	**34,032**	**3.7**	42,956	3.3
– Corrosion Resistant Alloy ("CRA") lined pipe	**6,646**	**0.7**	10,124	0.8
– Concrete Weighted Coating ("CWC") services	**28,404**	**3.1**	–	–
– Pipeline inspection services	**3,592**	**0.4**	–	–
Subtotal	**141,839**	**15.4**	106,465	8.2
Oilfield services	**344,231**	**37.3**	443,395	34.1
Offshore engineering services	**33,188**	**3.6**	411,543	31.6
Total revenue	**921,810**	**100.0**	1,300,474	100.0

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

	Six months ended 30 June			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
The PRC	**299,405**	**32.5**	700,176	53.8
Russia, Central Asia and East Europe	**268,876**	**29.2**	81,454	6.3
North and South America	**153,842**	**16.7**	330,373	25.4
South Asia	**98,367**	**10.7**	53,438	4.1
Africa	**80,183**	**8.7**	94,847	7.3
Middle East	**19,938**	**2.1**	33,828	2.6
Others	**1,199**	**0.1**	6,358	0.5
Total	**921,810**	**100.0**	1,300,474	100.0

Revenue decreased by RMB378.7 million, or 29.1%, from RMB1,300.5 million for the six months ended 30 June 2015 to RMB921.8 million for the Interim Period. Such decrease was mainly due to the decrease in revenue from offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB63.5 million, or 18.7%, from RMB339.1 million for the six months ended 30 June 2015 to RMB402.6 million for the Interim Period. Such increase primarily reflected a significant increase in revenue derived from sales of drill pipes, which offset the decrease in revenue derived from OCTG coating services.

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

	Six months ended 30 June	
	2016	2015
Sales of drill pipes		
– International market		
– volume (tons)	**13,559**	5,431
– unit price (RMB/ton)	**19,449**	22,407
Subtotal (RMB'000)	**263,702**	121,698
– The PRC market		
– volume (tons)	**3,277**	4,278
– unit price (RMB/ton)	**17,405**	20,158
Subtotal (RMB'000)	**57,031**	86,229
Total (RMB'000)	**320,733**	207,927

Revenue from sales of drill pipes in the international market increased by RMB142.0 million, or 116.7%, from RMB121.7 million for the six months ended 30 June 2015 to RMB263.7 million for the Interim Period. The increase primarily reflected a significant increase of 149.6% in the volume of drill pipes sold from 5,431 tonnes for the six months ended 30 June 2015 to 13,559 tonnes for the Interim Period although there is a 13.2% decrease in average selling price in the international market from RMB22,407 per tonne for the six months ended 30 June 2015 to RMB19,449 per tonne for the Interim Period. The increase in the sales volume primarily reflected the large demands from the Russia market and the enhancement of Hilong's brand recognition in this region. The decrease in average selling price primarily reflected the decrease in steel price during the Interim Period compared to that for the six months ended 30 June 2015.

Revenue from sales of drill pipes in the PRC market decreased by RMB29.2 million, or 33.9%, from RMB86.2 million for the six months ended 30 June 2015 to RMB57.0 million for the Interim Period. The decrease primarily reflected a 23.4% decrease in volume of drill pipes sold in the PRC market from 4,278 tonnes for the six months ended 30 June 2015 to 3,277 tonnes for the Interim Period and, to a lesser extent, a 13.7% decrease in average selling price in the PRC market from RMB20,158 per tonne for the six months ended 30 June 2015 to RMB17,405 per tonne for the Interim Period. The decrease in the sales volume primarily reflected the delay of capital and operation spending by certain oil and gas companies and slow market recovery in the PRC market. The decrease in average selling price primarily reflected the decrease in steel price during the Interim Period compared to that for the six months ended 30 June 2015.

Revenue from OCTG coating services decreased by RMB42.9 million, or 38.3%, from RMB111.9 million for the six months ended 30 June 2015 to RMB69.0 million for the Interim Period. The decrease was mainly due to the decreased demands of OCTG coating services in both international market and PRC market as a result of the delay of capital and operation spending by certain international and PRC oil and gas companies in the Interim Period.

Line pipe technology and services. Revenue from line pipe technology and services segment increased by RMB35.3 million, or 33.1%, from RMB106.5 million for the six months ended 30 June 2015 to RMB141.8 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from OCTG coating materials and CWC services.

The increase in revenue derived from OCTG coating materials primarily reflected our continuous effort to promote our high quality OCTG coating materials in the market.

The increase in revenue from CWC services reflected that our production capacities were occupied by Maoming petro-chemical project of Sinopec in the Interim Period.

Oilfield services. Revenue from oilfield services segment decreased by RMB99.2 million, or 22.4%, from RMB443.4 million for the six months ended 30 June 2015 to RMB344.2 million for the Interim Period. Such decrease was attributable to (i) lower oilfield services revenue generated from some drilling rigs that have been relocated and had no workload during relocation in the Interim Period; and (ii) decrease in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients for the Interim Period as compared to that of the six months ended 30 June 2015.

Offshore engineering services. Following the completion of the two offshore engineering, procurement, construction and installation service contracts with CNOOC, further revenue of the two projects have been recognized in the Interim Period.

Cost of Sales/Services

Cost of sales/services decreased by RMB272.7 million, or 31.3%, from RMB870.6 million for the six months ended 30 June 2015 to RMB597.9 million for the Interim Period. Such decrease primarily reflected a large decrease in the cost of offshore engineering services segment.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB106.0 million, or 24.7%, from RMB429.9 million for the six months ended 30 June 2015 to RMB323.9 million for the Interim Period. Gross profit margin increased from 33.1% for the six months ended 30 June 2015 to 35.1% for the Interim Period.

The slight increase in gross profit margin primarily reflected different revenue mix generated during the Interim Period as compared to the six months ended 30 June 2015. Oilfield services segment with higher gross profit margin accounted for higher proportion of revenue while offshore engineering services segment with lower gross profit margin accounted for lower proportion of revenue in the Interim Period.

Selling and Marketing Expenses

Selling and marketing expenses slightly increased by RMB2.0 million, or 4.1%, from RMB48.7 million for the six months ended 30 June 2015 to RMB50.7 million for the Interim Period. Without taking into account higher proportion of revenue derived from the offshore engineering services segment for the six months ended 30 June 2015, selling and marketing expenses maintains at the similar percentage to revenue. Offshore engineering services segment incurred less selling and marketing expenses compared to that of the other three business segments of the Group.

Administrative Expenses

Administrative expenses decreased by RMB35.4 million, or 19.4%, from RMB182.8 million for the six months ended 30 June 2015 to RMB147.4 million for the Interim Period. Such decrease primarily reflected (i) decrease in staff costs, travelling expenses and office expenses due to implementation of cost saving policy, and (ii) no specific provision for impairment of receivables was provided in the Interim Period while the provision reached RMB10.5 million for the six months ended 30 June 2015.

Other Gain/(Losses) – Net

The Group recognized net loss of RMB13.0 million for the six months ended 30 June 2015 and net gain of RMB102.0 million for the Interim Period. The net gain recognized for the Interim Period primarily reflected an exchange gain of RMB93.6 million from the operating activities as a result of the appreciation of United States Dollar ("USD") and Hong Kong Dollar ("HKD"), and government grants of RMB7.2 million in relation to new and high-tech projects. The net loss recognized for the six months ended 30 June 2015 reflected a net loss of RMB17.7 million in foreign exchange losses, partially offset by RMB6.4 million in government grants in relation to new and high-tech projects.

Finance Costs – Net

Finance costs – net increased by RMB84.4 million, or 179.6%, from RMB47.0 million for the six months ended 30 June 2015 to RMB131.4 million for the Interim Period. Such increase primarily reflected (i) the interest expense from bank borrowings of RMB70.0 million, and (ii) an exchange loss of RMB57.0 million from the financing activities resulting from the appreciation of USD and HKD. Finance costs-net for the six months ended 30 June 2015 mainly reflected interest expense from bank borrowings, after capitalisation, of RMB52.5 million.

Profit before Income Tax

As a result of the foregoing, profit before income tax decreased from RMB138.0 million for the six months ended 30 June 2015 to RMB96.0 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB29.0 million for the six months ended 30 June 2015 and RMB26.5 million for the Interim Period. Effective tax rate was approximately 21.0% for the six months ended 30 June 2015 and 27.6% for the Interim Period. The increase in effective tax rate was mainly resulted from the increase in interest expenses from offshore borrowings that were not deductible.

Profit for the Period Attributable to Equity Owners of the Company

As a result of the foregoing, profit for the period attributable to equity owners of the Company decreased from RMB108.8 million for the six months ended 30 June 2015 to RMB67.0 million for the Interim Period.

Inventories

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

	As at 30 June 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Inventory	**767,138**	804,194
Turnover days of inventory (in days)[1]	**239**	179

(1) Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2015. Average inventory equals to inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase in turnover days of inventory from 179 days as at 31 December 2015 to 239 days as at 30 June 2016 primarily reflected the balance of inventory decreased, much less cost of sales was recognized in the income statement for the Interim Period as compared to that in 2015.

Trade and Other Receivables

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

	As at 30 June 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Trade receivables		
– Due from third parties	**1,685,096**	1,510,650
– Due from related parties	**59,378**	38,316
– Less: Provision for impairment of receivables	**(27,237)**	(27,237)
Trade receivables - net	**1,717,237**	1,521,729
Other receivables		
– Due from third parties	**97,517**	87,744
– Due from related parties	**63,804**	76,348
Other receivables	**161,321**	164,092
Bills receivable	**23,062**	34,615
Prepayments	**124,853**	133,837
Dividend receivables	**1,550**	3,346
Total	**2,028,023**	1,857,619

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

	As at 30 June 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Trade receivables, net		
– Within 90 days	**594,732**	725,537
– Over 90 days and within 180 days	**165,788**	264,531
– Over 180 days and within 360 days	**517,654**	236,135
– Over 360 days and within 720 days	**324,048**	231,735
– Over 720 days	**115,015**	63,791
	1,717,237	1,521,729
Turnover days of trade receivables, net(1)	**320**	225

(1) Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2015. Average trade receivables equals to balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

As at 30 June 2016, trade receivables of RMB707.9 million, representing 41.2% of the Group's trade receivables after impairment, remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and good trading records with the Group or due from subsidiaries' related party entities. As at 30 June 2016, the Group believes that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, the Group believes that no additional provision for impairment is necessary in respect of these balances.

The increase in turnover days of trade receivables from 225 days as at 31 December 2015 to 320 days as at 30 June 2016 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the PRC market was less active and slowed down in the Interim Period.

Trade and Other Payables

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

	As at 30 June 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Bills payable	**70,359**	75,393
Trade payables		
– Due to third parties	**560,639**	702,395
Other payables		
– Due to related parties	**29,306**	31,483
– Due to third parties	**39,031**	48,853
Staff salaries and welfare payables	**29,065**	43,022
Advance from customers	**71,436**	70,913
Interest payables	**5,646**	15,286
Accrued taxes (other than income tax)	**28,693**	53,374
Dividends payable	**30,232**	1,463
Other liabilities	**7,843**	16,052
	872,250	1,058,234

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

	As at 30 June 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Trade payables, gross		
– Within 90 days	**244,971**	537,038
– Over 90 days and within 180 days	**171,505**	101,272
– Over 180 days and within 360 days	**135,230**	62,662
– Over 360 days and within 720 days	**7,918**	1,275
– Over 720 days	**1,015**	148
	560,639	702,395
Turnover days of trade payables(1)	**192**	138

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2015. Average trade payables equals to balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The decrease in the balance of trade payables due to third parties from 31 December 2015 to 30 June 2016 primarily reflected the decrease of purchase and increase of unbilled payables in the Interim Period.

Business Review

In the first half of 2016, the global oil and gas market remained weak and brought relatively severe challenges to Hilong's operation during this period. In particular, the international oil price continued to hover at low levels which caused certain of our customers to adjust their investment plans, affecting the demand for certain of Hilong's products and services and bringing pressure on the Company's operations. Nevertheless, the year of 2016 is also a year for Hilong to continue intensifying its international layout, the commencement of the operation of the drill pipe plant in Russia and the expansion of overseas markets of the offshore engineering services segment house the continuous growth impetus for the Company's overall development in the future. On the whole, Hilong maintained steady operations during the Interim Period and realized a total revenue of RMB922 million, indicating a decrease of 29.1% over the corresponding period of 2015. The profit attributable to equity owners of the Company amounted to RMB67 million, representing a year-on-year decrease of 38.4%.

Oilfield Services

Overall, Hilong's oilfield services segment maintained healthy operations in 2016. During the Interim Period, this segment realized total revenue of RMB344 million, indicating a decrease of 22.4% as compared to the corresponding period of 2015. As the core business of the segment, the drilling services maintained stable development. In the Interim Period, the drilling services recorded total revenue decreased by 24.4% as compared to the corresponding period in 2015. While most of our domestic and international peers in the industry confronted with the difficulties of sharp decline in work volume and a dramatic decrease of day rate, Hilong still managed to maintain normal operations and retained a relatively strong bargaining power of its existing drilling rigs under the volatile market environment relying on its high-end rig fleet, advanced technology, diversified customer base and its strategic regional presence. During the Interim Period, the drilling service for Shell Oil Company in Albania which was undertaken by our HL-30 drilling team of Hilong Albania Oilfield Services Company commenced successfully. It was Hilong's debut in Europe's drilling service market, representing another significant breakthrough of Hilong on the expansion in high-end oilfield services market, which will further expand Hilong's drilling rigs and the business scope of its drilling services. Hilong's capability of engaging new customers and securing new contracts under tough market conditions has fully demonstrated its leading market position in the field of premium onshore drilling services and the high recognition from customers. Going forward, Hilong will continue to expand its high-end drilling rigs, explore top-tier international customers and march into new regional markets in a planned manner in order to further consolidate its superior position in this business segment. The comprehensive services, which have been officially kicked off in 2016, are expected to become a source of the diversified revenue of the oilfield services segment during the new development era, and further promote Hilong's transformation towards an integrated oilfield services provider. Projects currently undergoing include the provision of integrated technical services including offering fluid and rotary geological steering for United Energy in Pakistan, as well as providing well completion technical services, such as oil and gas testing for Poly-GCL in Ethiopia.

Oilfield Equipment Manufacturing and Services

The oilfield equipment manufacturing and services segment achieved a total revenue of RMB403 million in the first half of 2016, reflecting an increase of 18.7% over the same period of 2015. During the Interim Period, the revenue generated from the drill pipe and related products business amounted to RMB334 million, representing a year-on-year increase of 46.9%. The increase of revenue of Hilong's drill pipe business was mainly attributed to the rapid growth of market share in Russia and the replenishment of inventories from customers from other regions. On the whole, Hilong still managed to maintain its leading and secured industry position in the Chinese market in terms of its drill pipe products, and continued a steady pace of growth in overseas markets. While the general market conditions of the global oil and gas industry remains harsh, Hilong still maintained relatively stable oil and gas development activities in Russia and its surrounding areas. Hilong acutely captured the market changes, actively adjusted its sales region layout focus, and focused its resources on exploring the demand of drill pipes in Russia and its surrounding areas. Considering the fact that Russia imposed punitive tariffs on imported products, Hilong relocated parts of its production lines of drill pipes from China to Russia in the second half of 2015 in order to develop the drill pipe market for this region more effectively. Currently, the production lines of drill pipes in Russia have commenced operations successfully and secured certain orders. Localized production has strengthened the competitive advantages of Hilong's products. Hilong has always paid great attention to the market promotion of its premium products. Certain non-API drill pipe products such as sour-service drill pipe were highly recognized by the customers, and were widely applied across the industry. Other new products including drill pipe with radio frequency identification and super high strength drill pipe (grade U165) are under the stage of key market promotion.

The OCTG coating services business achieved a total revenue of RMB69 million during the Interim Period, representing a decrease of 38.3% as compared with the first half of 2015. The decline in coating business was mainly due to the decline in demands in North America and China markets, but the market position of Hilong's coating services showed no apparent changes. While maintaining the leading advantage in the field of drill pipe coatings, Hilong has also been actively promoting the application of coating on tubings and casings in the market in order to expand the service scope and revenue sources. All these initiatives have further strengthened the Company's competitiveness in this business segment.

Line Pipe Technology and Services

The line pipe technology and services segment saw an increase in revenue by 33.1% to RMB142 million in the first half of 2016. The operations of this segment still faced tough challenges in 2016. Nevertheless, relying on its extensive experiences accumulated from its track record of participating major domestic projects including West-East Gas Pipe Line Project Phase I and II, CNOOC East China Sea Project and CNOOC's Weizhou Phase II Project in 2015, as well as the experiences gained in the overseas markets in recent years, Hilong still managed to complete the LNG project in Pakistan during the first half of the year, and securing multiple domestic and overseas orders even under such unfavorable market environment. These orders include the allocation and coating business of the Maoming petro-chemical project for Sinopec Petroleum Engineering Company Limited. The line pipe inspection business maintained a promising development, and has successfully proceeded with inspection services for a specific section of the CNPC's Shan-Jing III Project, pipeline inspection for Datang Coal-to-Gas Project, and pipeline inspection services for external inspection project of Shanghai Network Pipeline Limited. Hilong has also been actively following up with other customers regarding the potential pipeline inspection service projects. The sales of Hilong's new coating materials for offshore vehicles achieved nearly RMB8 million in the first half of 2016, representing a substantial growth as compared to that of the corresponding period in 2015. All of the above achievements in new businesses were in line with Hilong's development strategy of focusing on diversification and high-end development for its line pipe technology and services segment, and will effectively improve the overall profitability of this segment. Synergistic development between domestic and international markets will also help Hilong to expand its revenue sources, balance the market risks and enhance Hilong's international competitiveness in the field of line pipe coating services.

Offshore Engineering Services

In 2016, our offshore engineering services segment faces tough challenges caused by low oil price. However, in 2015, the success of Hilong's off-shore pipelines laying construction for CNOOC's East China Sea Project and the Weizhou Phase II Project were highly appraised by customers. A number of innovative design plans proposed by our design service team were highly recognized by customers, and were testified during the execution process. It laid a solid foundation for Hilong to secure orders under tough market environment.

In the first half of 2016, Hilong successfully won the contract from TIMAS pursuant to which "Hilong 106", the offshore pipe-laying and derrick vessel, will undertake the installation of conduit rack for a certain oilfield's offshore gas field development project in Southeast Asia. This was the first offshore derrick operations contract Hilong won, as well as the first offshore engineering service contract awarded from overseas market.

In the first half of 2016, Hilong successfully obtained a contract from CNPC Offshore Engineering Company Limited (CPOE) for its Zhoushan Phase III Project, to provide the pipe-laying services of 48-inch water supply pipes.

In the first half of 2016, the offshore engineering design service team successfully won a part of the subcontracting design service for Sinopec Shanghai Offshore Petroleum Bureau's project at North Sea, the United Kingdom.

Prospects

For the second half of 2016, Hilong will still face multiple market challenges, including volatile international oil price and market demand which is still under adjustment. However, the Company remains confident that it will maintain stable operations of the overall business. In the past few years, Hilong actively explored the path for reform and development, and devised a diversified business portfolio through restructuring its existing businesses and venturing into new businesses. This was mainly attributable to Hilong's strategic vision which was ahead of the industry trend. In the future, Hilong will continue to focus on specialized operation while endeavour to improve profitability and capability against risks through maintaining a moderately diversified business portfolio, in order to lay a solid foundation for the Company's development during the new stage and under the new market environment.

Oilfield Services

Hilong's oilfield services segment will continue its trend of steady development. The sustainable and stable operation of the existing rigs is the foundation to maintain steady operation of the entire oilfield services segment at the moment. The Company will maintain open communications with its existing customers and improve the operational efficiency of existing projects while ensuring the smooth continuation of contracts. The Company invested a 3,000HP drilling rig in the first half of 2016, which will commence drilling services for Shell in the Albanian market, and the resumption of works of certain relocated drilling rigs in the first half of the year. It is expected to bring in a stable revenue stream in the second half of 2016 for the drilling service, and lay the groundwork for sustainable growth for drilling services in the next few years. In addition, Hilong will continue to seek new opportunities including exploring new regional markets and engaging new customers. Currently, the Company is actively tracking potential customers and orders from new regional markets including the Middle East, and strives to establish the business layout in new strategic regions as quickly as possible, so as to enter the local mainstream markets. Meanwhile, the Company will continue to expand the business scope, develop comprehensive services, improve the capability of providing integrated services, and keep expanding relying on the foundation laid in the first half of 2016.

Oilfield Equipment Manufacturing and Services

After years of efforts, Hilong has made considerable achievements in developing overseas markets for its drill pipe business. However, Hilong's overall global market share was still limited, indicating a huge potential to capture greater market share in the international market and to enhance the international influence of its brand name in the future. The Company will continue to cultivate individual key markets including Russia and its surrounding regions in order to maintain its leading market position in these regions. In the first half of 2016, the Company's sales volume of drill pipe in the Russian market reached 11,402 tonnes, representing a significant increase of 834%, testifying that our strategies were correct. In addition, the Company will intensify its efforts to promote sales of non-API drill pipe products and related services with high added value in overseas markets, and enhance the degree of recognition of the Hilong brand name among international customers. As the oil price stabilizes gradually and the market prospects of the domestic and overseas oil and gas industry is promising, the drill pipe and related products business as one of Hilong's traditional core businesses is also expected to return to the track of steady development. In recent years, Hilong has deployed new production capacity or upgraded the existing production facility for its OCTG coating services business in key strategic locations both domestically and internationally in a planned manner. At present, the Company's major OCTG coating service plants are fully equipped with the capacities of applying coatings for the entire series of OCTG pipes and a variety of new types of pipes. This remarkably broadened the business scope of Hilong's OCTG coating services, effectively improved production efficiency, and fully prepared Hilong to seize the growing demand for high-end coatings applied onto tubings and casings as well as other new types of pipes in terms of technology and production capacity in the market. Hilong will continue to focus on market development and actively nurture new market demands, so as to realize the optimization of production capacity and achieve steady growth during the new development era.

Line Pipe Technology and Services

Hilong's line pipe technology and services segment will adopt a development strategy featured with diversification, high-end orientation and internationalization. As the global oil and gas market is adjusting positively, major oil and gas pipeline construction projects in China and overseas markets are also expected to launch progressively or resume normal construction. Hilong's line pipe coating services business will also embrace such new development opportunities. Hilong has provided coating services for a number of international pipeline construction projects in recent years, accumulated extensive experiences and established good reputation among international customers with its qualification and capability widely accepted. While continuing to actively participate in major domestic projects and solidify its domestic market position, Hilong will continue to increase its efforts to explore overseas markets, particularly to seek opportunities to participate in major international line pipe projects for its new high-end businesses such as CRA and CWC and establish a track record. Hilong will also concentrate its resources to develop the high-end CRA and CWC businesses into the new growth impetus leading the future growth of the segment. The Company will also accelerate the development of its pipeline inspection business to further explore the market and strengthen the market position. This will help Hilong to extend and improve the industry chain for line pipe services, achieving the goal of growing into a one-stop line pipe solution provider as soon as possible. In terms of cooperation within the industry, Hilong will further explore the level of cooperation and the scope of cooperation with CNPC, Sinopec and CNOOC. In addition, Hilong has independently developed a number of new and high-end coating material products including the coating materials for offshore vehicles. At present, procedures for obtaining the certification have been completed, and the market promotion for such products has also made certain progress. These new products are targeted to meet the demands from international high-end customers, and will further enhance Hilong's brand recognition in the international market.

Offshore Engineering Services

The offshore pipe-laying and derrick vessel, "Hilong 106", achieved satisfactory results in 2015, proving our operational capacity. Starting from 2016, our major market has shifted to overseas. Currently, we have successfully bid for the contract from TIMAS, and are at the same time following up with several potential customers and contracts in the Southeast Asian market. The project for the North Sea in the United Kingdom is also one of our key projects. Other than the traditional offshore oil and gas development industry, it is also tracking the project development works including offshore wind power installation, sewage pipeline construction in coastal cities, water and gas supply pipeline construction, and dock and bridge construction. The pace of development for the offshore engineering design services business will also speed up, providing solid technical support for "Hilong 106" while expanding its external design consultation services business. Currently, we have commenced cooperation with CNOOC and Sinopec Shanghai Offshore Petroleum Bureau in areas such as offshore engineering design and construction to jointly promote the development of new technology, new materials and new skills for offshore engineering. This fully reflected the wide recognition of Hilong's high-standard capability of providing offshore engineering design, construction and integrated services in the domestic market. Going forward, Hilong will continue to broaden and intensify its strategic cooperation with the high-end domestic customers, and build up a solid track record in domestic market. Meanwhile, Hilong continues to actively seek to establish communication and cooperation with the leading international players in the area of offshore engineering services in order to pave the road to enter into the broader international markets.

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

Liquidity and Financial Resources

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Net cash (used in)/from operating activities	**(99,681)**	166,108
Net cash used in investing activities	**(154,870)**	(137,501)
Net cash used in financing activities	**(82,830)**	(60,374)
Net decrease in cash and cash equivalents	**(337,381)**	(31,767)
Exchange losses on cash and cash equivalents	**(9,858)**	(107)
Cash and cash equivalents at beginning of the period	**821,364**	548,057
Cash and cash equivalents at end of the period	**474,125**	516,183

Operating Activities

Net cash used in operating activities for the Interim Period was RMB99.7 million, representing cash used in operations of RMB2.6 million, interest payment of RMB78.5 million and income tax payment of RMB18.6 million.

Net cash from operating activities for the six months ended 30 June 2015 was RMB166.1 million, representing cash generated from operations of RMB261.8 million, partially offset by the interest payment of RMB44.4 million and income tax payment of RMB51.3 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB154.9 million, primarily reflecting payment of RMB156.7 million for purchases of property, plant and equipment.

Net cash used in investing activities for the six months ended 30 June 2015 was RMB137.5 million, primarily reflecting payment of RMB136.9 million for purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities for the Interim Period was RMB82.8 million, primarily reflecting proceeds of RMB816.9 million from borrowings, offset by repayment of borrowings of RMB899.7 million.

Net cash used in financing activities for the six months ended 30 June 2015 was RMB60.4 million, primarily reflecting proceeds of RMB235.0 million from borrowings, offset by repayment of borrowings of RMB295.5 million.

Capital Expenditures

Capital expenditures were RMB195.2 million and RMB131.0 million for the six months ended 30 June 2015 and the Interim Period respectively. The decrease in capital expenditures for the Interim Period was mainly due to the Company's implementation of capital expenditures saving policy and achieved favourable results in the Interim Period.

Indebtedness

As at 30 June 2016, the outstanding indebtedness of RMB2,643.7 million was mainly denominated in USD, HKD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Non-current		
Bank borrowings – unsecured	**2,150,128**	2,156,532
Less: Current portion of non-current borrowings	**(610,151)**	(1,072,068)
	1,539,977	1,084,464
Current		
Bank borrowings – secured	**48,208**	50,377
Bank borrowings – unsecured	**445,367**	470,003
Current portion of non-current borrowing	**610,151**	1,072,068
	1,103,726	1,592,448
	2,643,703	2,676,912

The bank borrowings of RMB48.2 million were secured by certain bank deposits of the Group, with a carrying amount of RMB32.5 million as at 30 June 2016.

Gearing Ratio

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

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

The gearing ratios as at 30 June 2016 and 31 December 2015 are as follows:

	As at 30 June 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Total borrowings	**2,643,703**	2,676,912
Less: Cash and cash equivalents	**(474,125)**	(821,364)
Net debt	**2,169,578**	1,855,548
Total equity	**3,343,918**	3,256,136
Total capital	**5,513,496**	5,111,684
Gearing ratio	**39.35%**	36.30%

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 USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including 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 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 18.2% appreciation of RMB against USD during the period from 21 July 2005 to 30 June 2016. There remains significant international 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 66.7% and 40.5% of the total revenue of the Company for the six months ended 30 June 2015 and the Interim Period respectively.

Staff and Remuneration Policy

As at 30 June 2016, the total number of full-time employees employed by the Group was 2,583 (31 December 2015: 2,632). The following table sets forth the number of the Group's fulltime employees by area of responsibility as at 30 June 2016:

On-site workers	1,518
Administrative	471
Research and development	148
Engineering and technical support	272
Company management	40
Sales, marketing and after-sales services	134
	2,583

Employee costs excluding the Directors' remuneration totaled RMB175,793,000 for the six months ended 30 June 2016.

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

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

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

Event after the End of the Interim Period

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

CORPORATE GOVERNANCE

Corporate Governance Code

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

Model Code for Securities Transactions by Directors of Listed Issuers

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

REVIEW OF INTERIM RESULTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDENDS

On 12 July 2016, a final dividend of HK2.0 cents per share of the Company, amounting to a total dividend of approximately HK$33,929,000 (equivalent to approximately RMB28,769,000) for the year ended 31 December 2015, was paid to shareholders of the Company.

The Board resolved not to declare any interim dividend for the Interim Period (2015: nil).

PUBLICATION OF INTERIM RESULTS

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

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

APPRECIATION

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

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

26 August 2016

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