海隆控股有限公司*

Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)

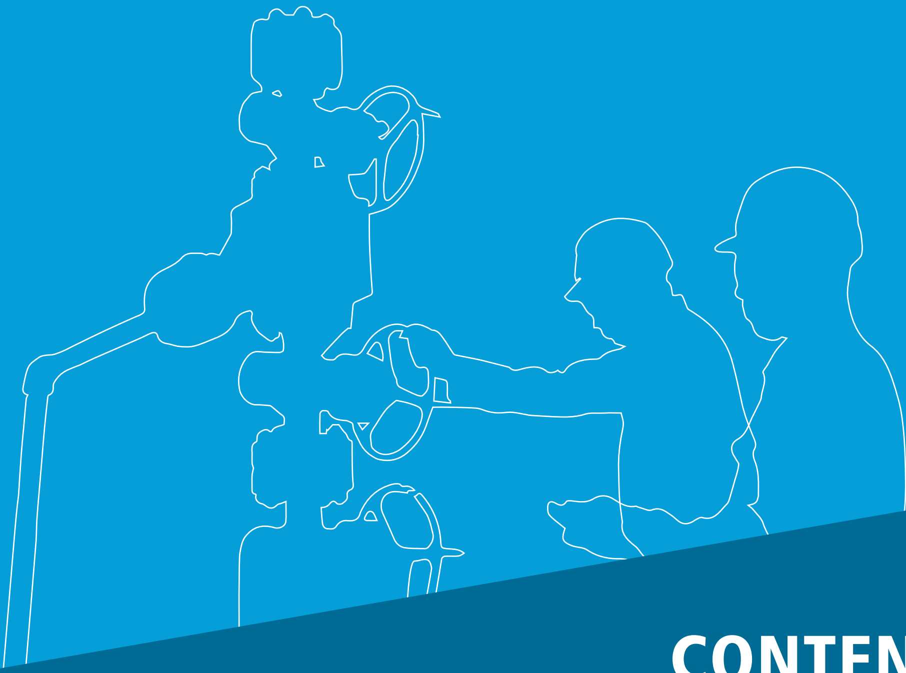
Stock Code: 1623

* For identification purpose only

HILONG

2016

INTERIM REPORT



CONTENTS

This interim report is printed on environmental paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jun (張軍)
(Chairman and Chief Executive Officer)
Mr. Wang Tao (汪濤)
(Executive President)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
(Chief Strategy Officer)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Li Huaiqi (李懷奇)
Mr. Yang Qingli (楊慶理)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Lee Siang Chin
Mr. Liu Haisheng (劉海勝)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Zhang Shuman (張姝嫚)

AUDIT COMMITTEE

Mr. Lee Siang Chin
(Chairman of Audit Committee)
Mr. Wang Tao (王濤)
Ms. Zhang Shuman (張姝嫚)

REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Remuneration Committee)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Lee Siang Chin

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Liu Haisheng (劉海勝)

JOINT COMPANY SECRETARIES

Ms. Zhang Shuman (張姝嫚)
Ms. Cheng Pik Yuk (鄭碧玉)

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Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch

STOCK CODE

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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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB'000	As at 31 December 2015 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 3,000 HP 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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

INDEBTEDNESS

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

	As at 30 June 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 RMB'000	As at 31 December 2015 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%

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, 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.

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	7	3,129,592	3,037,789
Lease prepayments	7	89,626	90,694
Intangible assets	7	163,209	156,355
Investments accounted for using equity method		58,909	59,221
Deferred income tax assets		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	10	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

The notes on page 22 to 46 are an integral part of this condensed consolidated interim financial information.

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	11	1,539,977	1,084,464
Deferred income tax liabilities		49,371	45,193
Deferred revenue		26,901	23,171
		1,616,249	1,152,828
Current liabilities			
Trade and other payables	12	872,250	1,058,234
Current income tax liabilities		12,425	3,625
Borrowings	11	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

The notes on page 22 to 46 are an integral part of this condensed consolidated interim financial information.

Approved by the Board of Directors on 26 August 2016.

Zhang Jun
Director

Wang Tao (汪濤)
Director

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	(Unaudited) Six months ended 30 June 2016 RMB'000	2015 RMB'000
Revenue	*6(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	*13*	**101,961**	(12,954)
Operating profit		**227,679**	185,469
Finance income	*14*	**3,020**	5,570
Finance costs	*14*	**(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	*15*	**(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	*16*	**0.0395**	0.0641
– Diluted	*16*	**0.0395**	0.0641

The notes on page 22 to 46 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	(Unaudited) Six months ended 30 June	
	2016 RMB'000	2015 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

The notes on page 22 to 46 are an integral part of this condensed consolidated interim financial information.

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	*10(a)*	–	769	–	–	769	–	769
2013 Share Option Scheme	*10(a)*	–	3,522	–	–	3,522	–	3,522
Exercise of share options	*9(a)*	4	95	–	–	99	–	99
Dividends in respect of 2014	*17*	–	–	(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	*10(a)*	**–**	**140**	**–**	**–**	**140**	**–**	**140**
2013 Share Option Scheme	*10(a)*	**–**	**1,823**	**–**	**–**	**1,823**	**–**	**1,823**
Dividends in respect of 2015	*17*	**–**	**–**	**(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**

The notes on page 22 to 46 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	(Unaudited) Six months ended 30 June	
	2016 RMB'000	2015 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

The notes on page 22 to 46 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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, offshore engineering and offshore design 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 condensed consolidated interim financial information was presented in Renminbi thousand (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 26 August 2016.

This condensed consolidated interim financial information has not been audited.

2 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**").

3 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 new and 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

3 ACCOUNTING POLICIES (continued)

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

- 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.

(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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

4 ESTIMATES

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

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

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management department or in any risk management policies since year end.

5.2 Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions and issues of debt instruments or equity instruments.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the end of the period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 30 June 2016					
Borrowings and interest payable	1,200,140	783,010	815,632	111	2,798,893
Trade and other payables (excluding advance from customers, interest payables, staff salaries and welfare payables and other tax liabilities)	737,410	–	–	–	737,410
Derivative financial instruments	297	–	–	–	297
	1,937,847	783,010	815,632	111	3,536,600

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2015					
Borrowings and interest payable	1,685,568	338,227	807,544	169	2,831,508
Trade and other payables (excluding advance from customers, interest payables, staff salaries and welfare payables and other tax liabilities)	875,639	–	–	–	875,639
Derivative financial instruments	1,327	–	–	–	1,327
	2,562,534	338,227	807,544	169	3,708,474

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial liabilities that are measured at fair value at 30 June 2016 and 31 December 2015.

As at 30 June 2016	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial liabilities				
Derivative financial instruments – current				
Interest rate swaps	**–**	**362**	**–**	**362**

As at 31 December 2015	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Derivative financial instruments – current				
Interest rate swaps	–	1,006	–	1,006

There were no transfers among levels during the years.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments in level 2 include:

- The fair value of foreign exchange forward contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

5.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Cash and cash equivalents

- Restricted cash

- Trade and other receivables

- Trade and other payables

- Borrowings

During the six months ended 30 June 2016, there were no reclassifications of financial assets (six months ended 30 June 2015: Nil).

6 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.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

6 SEGMENT INFORMATION (continued)

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

6 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

6 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

6 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 RMB'000	2015 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 2016 RMB'000	31 December 2015 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

6 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

7 PROPERTY, PLANT AND EQUIPMENT, LEASE PREPAYMENTS AND INTANGIBLE ASSETS

		(Unaudited)	
	Property, plant and equipment	Lease prepayments	Intangible assets
	RMB'000	RMB'000	RMB'000
At 1 January 2015			
Cost	3,449,340	105,680	165,345
Accumulated depreciation	(592,961)	(12,859)	(3,871)
Impairment provision	–	–	(2,097)
Net book amount	2,856,379	92,821	159,377
Six months ended 30 June 2015			
Opening net book amount	2,856,379	92,821	159,377
Additions	194,522	–	650
Disposals	(643)	–	–
Depreciation	(94,971)	(1,068)	(832)
Currency translation differences	(14,161)	–	(9)
Closing net book amount	2,941,126	91,753	159,186
At 30 June 2015			
Cost	3,625,861	105,680	165,989
Accumulated depreciation	(684,735)	(13,927)	(4,706)
Impairment provision	–	–	(2,097)
Net book amount	2,941,126	91,753	159,186

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

7 PROPERTY, PLANT AND EQUIPMENT, LEASE PREPAYMENTS AND INTANGIBLE ASSETS (continued)

	(Unaudited)		
	Property, plant and equipment RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000
At 1 January 2016			
Cost	3,839,196	105,680	163,213
Accumulated depreciation	(801,407)	(14,986)	(4,761)
Impairment provision	–	–	(2,097)
Net book amount	3,037,789	90,694	156,355
Six months ended 30 June 2016			
Opening net book amount	3,037,789	90,694	156,355
Additions	130,966	–	–
Disposals	(509)	–	–
Depreciation	(113,307)	(1,068)	(761)
Currency translation differences	74,653	–	7,615
Closing net book amount	3,129,592	89,626	163,209
At 30 June 2016			
Cost	4,058,636	105,680	170,828
Accumulated depreciation	(929,044)	(16,054)	(5,522)
Impairment provision	–	–	(2,097)
Net book amount	3,129,592	89,626	163,209

On 31 March 2015, the pipe-lay barge ("**vessel**"), amounting to RMB1,121,924,000, became ready for offshore engineering services. The vessel is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The vessel is depreciated on a straight-line basis over the anticipated useful lives, after taking into account the estimated residual values.

The overall useful lives of the vessel are 25 years. Upon the acquisition of a vessel, the components of the vessel which are required to be replaced at the next dry-docking are identified and their costs are depreciated over the period to the next estimated dry-docking date. Costs incurred on subsequent dry-docking of vessel are capitalized and depreciated over the period to the next estimated dry-docking date. Other components of the vessel which are expected to be replaced at the period of time shorter than the overall useful lives of the vessel are identified and their costs are depreciated using the straight-line method over their estimated useful lives after taking into account the estimated residual values.

During the six months ended 30 June 2016, no interest has been capitalized in assets under construction (six months ended 30 June 2015: RMB12,971,000). The capitalised rate of borrowing was 4.89% during the six months ended 30 June 2015.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 *(Note 18(c))*	**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 *(Note 18(c))*	**1,550**	3,346
Other receivables *(Note 18(c))*	**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.

(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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

9 ORDINARY SHARES

	Note	Number of ordinary shares	(Unaudited) 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 (Note 10(a)(i)).

10 OTHER RESERVES

	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Statutory reserve	**98,848**	98,848
Merger reserve	**(141,929)**	(141,929)
Share options reserve *(a)*	**43,175**	41,212
Share premium	**1,172,248**	1,172,248
Capital redemption reserve	**702**	702
Capital reserve	**(43,553)**	(43,553)
	1,129,491	1,127,528

(a) Share options reserve

On 28 February 2011, the Company ratified and adopted an equity-settled "Pre-IPO share option plan" to recognize the contributions made by the directors and the employees of the Group.

At the annual general meeting of the shareholders on 10 May 2013, the shareholders adopted a share option scheme (the "**2013 Share Option Scheme**") for options to subscribe for not more than 5% ordinary shares of the then total outstanding shares of the Company. The purpose of the 2013 Share Option Scheme is to provide incentive or reward to certain directors or employees of the Group for their contribution to the Group. On 5 February 2014, options for a total of 19,980,000 ordinary shares of the Company under 2013 Share Option Scheme were granted to certain employees of the Group.

The fair value of the contributions received in exchange for the grant of the options is recognised as an expense on a straight-line basis over vesting period of each tranche. These share options are measured at fair value at granting date. The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the granting date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) Pre-IPO share option plan

The movements in the number of share options outstanding and their related exercise prices under the Pre-IPO share option plan are as follows:

	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2016	2015
Beginning of the period	2.60	**30,743,900**	31,594,300
Forfeited	2.60	**(1,569,600)**	(770,400)
Exercised *(Note 9(a))*	2.60	**–**	(48,000)
End of the period	2.60	**29,174,300**	30,775,900

The share options outstanding (expiry date: 21 April 2021) as at 30 June 2016 and 2015 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2016	2015
21 April 2012	2.60	**2,122,900**	2,224,500
21 April 2013	2.60	**6,342,800**	6,713,000
21 April 2014	2.60	**6,889,000**	7,265,600
21 April 2015	2.60	**6,901,800**	7,278,400
21 April 2016	2.60	**6,917,800**	7,294,400
	2.60	**29,174,300**	30,775,900

All of the options were exercisable as at 30 June 2016 (30 June 2015: 23,481,500 options). No options were exercised during the six months ended 30 June 2016 (six months ended 30 June 2015: 48,000 options).

Options exercised during the six months ended 30 June 2015 resulted in 48,000 shares being issued at the exercise price of HKD2.6 per share. The related weighted average share price at the time of exercise was HKD2.94 per share.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) Pre-IPO share option plan (continued)

The fair value of the Pre-IPO share options at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of share options granted under Pre-IPO share option plan	32,804

The significant inputs into the model were as follows:

	Granting date In HKD	**Equivalent to RMB**
Spot share price	2.60	2.11
Exercise price	2.60	2.11
Expected volatility	55.98%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.80%	N/A
Dividend yield	2.00%	N/A
Early Exercise Level	1.30	N/A

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2016 for share options granted under Pre-IPO share option plan amounted to RMB140,000 (six months ended 30 June 2015: RMB769,000), with a corresponding amount credited in share options reserve.

(ii) 2013 Share Option Scheme

The movements in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme are as follows:

	Exercise price (per share in HKD)	**Outstanding shares (unaudited) Six months ended 30 June**	
		2016	2015
Beginning of the period	5.93	**18,060,300**	19,563,400
Forfeited	5.93	**(839,100)**	(835,200)
End of the period	5.93	**17,221,200**	18,728,200

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2016 and 2015 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2016	2015
5 February 2015	5.93	**3,444,240**	3,745,640
5 February 2016	5.93	**3,444,240**	3,745,640
5 February 2017	5.93	**3,444,240**	3,745,640
5 February 2018	5.93	**3,444,240**	3,745,640
5 February 2019	5.93	**3,444,240**	3,745,640
	5.93	**17,221,200**	18,728,200

The fair value of the 2013 Share Option Scheme at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of share options granted under 2013 Share Option Scheme	29,009

The significant inputs into the model were as follows:

	Granting date	
	In HKD	Equivalent to RMB
Spot share price	5.64	4.43
Exercise price	5.93	4.66
Expected volatility	55.79%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.20%	N/A
Dividend yield	2.68%	N/A
Early Exercise Level	1.58	N/A

The total expense recognised in the condensed consolidated interim income statement for the six months ended 30 June 2016 for share options granted under 2013 Share Option Scheme amounted to RMB1,823,000 (six months ended 30 June 2015: RMB3,522,000), with a corresponding amount credited in share options reserve.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

11 BORROWINGS

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

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June 2016 RMB'000	2015 RMB'000
Beginning of the period	**2,676,912**	2,462,573
Additions of borrowings – net	**805,707**	235,044
Repayments of borrowings	**(899,698)**	(295,517)
Amortization using the effective interest method	**13,598**	8,370
Exchange difference	**47,184**	(402)
End of the period	**2,643,703**	2,410,068

The fair value of current borrowings equals their carrying amount as the discounting impact is not significant. Interests on non-current bank borrowings are charged at variable interest rates and the fair values approximated their carrying amount.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

11 BORROWINGS (continued)

(a) Secured bank borrowings

The bank borrowings of RMB48,208,000 (31 December 2015: RMB50,377,000) were secured by certain bank deposits of the Group, with a carrying amount of RMB32,544,000, as at 30 June 2016 (31 December 2015: RMB32,544,000).

(b) Unsecured bank borrowings

In September 2013, the Company entered into a multi-currency loan facility agreement with a syndicate of 23 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD147,250,000 facility and a HKD408,813,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 30 June 2016, the Group has fully drawn down the aforementioned facility, out of which USD47,468,000 and HKD131,785,000 have been repaid during this period. The remaining principals are fully repayable in 2016.

In April 2014, the Company entered into a multi-currency loan facility agreement with a syndicate of 9 banks. Pursuant to the agreement, the Company obtained four-year syndicated loan facilities, including a USD74,000,000 facility and a HKD201,500,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 30 June 2016, the Group has fully drawn down the aforementioned facility, out of which USD11,100,000 and HKD30,225,000 have been repaid during this period. The remaining principals are fully repayable in 2016, 2017 and 2018 respectively.

In July 2015, the Company entered into a multi-currency loan facility agreement with a syndicate of 13 banks. Pursuant to the agreement, the Company obtained three-year syndicated loan facilities, including a USD139,778,000 facility and a HKD380,611,000 facility at floating-rate interest. The loan facilities are guaranteed by certain subsidiaries of the Group. As at 30 June 2016, the Group has fully drawn down the aforementioned facility. These loan principals are fully repayable in 2017 and 2018 respectively.

In May 2016, Hilong Energy Limited ("**Hilong Energy**") entered into a USD loan facility agreement with China CITIC Bank International Limited amounted to USD20,000,000. As at 30 June 2016, all facilities were fully drawn down. These loan principals are fully repayable in 2017.

During the six months ended 30 June 2016, Shanghai Hilong Drill Pipe Co., Ltd. entered into RMB loan agreements with China Construction Bank amounted to RMB100,000,000 in aggregate. These loan principals are fully repayable in 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

12 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 *(Note 18(c))*	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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

13 OTHER GAIN/(LOSSES) – NET

	(Unaudited) Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Exchange gain/(losses) – net	**93,580**	(17,666)
Government grants	**7,219**	6,364
(Losses)/gain on disposal of property, plant and equipment – net	**(16)**	938
Others	**1,178**	(2,590)
	101,961	(12,954)

14 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Finance income:		
– Interest income derived from bank deposits	**3,020**	3,295
– Fair value gains on interest rate swaps	**–**	1,980
– Exchange gain	**–**	295
	3,020	5,570
Finance costs:		
– Interest expense on bank borrowings	**(70,020)**	(65,513)
Less: interest capitalised *(Note 7)*	**–**	12,971
	(70,020)	(52,542)
– Exchange losses	**(57,040)**	–
– Fair value losses on foreign exchange forward contracts	**(6,768)**	–
– Fair value losses on interest rate swaps	**(583)**	–
	(134,411)	(52,542)
Finance costs – net	**(131,391)**	(46,972)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

15 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.

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 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

16 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.

17 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

18 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2016 and 2015, and balances arising from related party transactions as at 30 June 2016 and 31 December 2015.

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hailong Oil Investments Co., Ltd.

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

(v) Jointly controlled entities of the Group

Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.

(b) Transactions with related parties

Save as disclosed elsewhere in this condensed consolidated interim financial information, during the six months ended 30 June 2016 and 2015, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Sales of goods:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**55,742**	29,576
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**446**	–
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**366**	–
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**–**	1,106
	56,554	30,682
Rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**3,097**	3,221

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of the business and in accordance with the terms of the underlying agreements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

18 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**59,273**	37,387
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**105**	929
	59,378	38,316
Dividends receivable:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,550**	1,550
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**–**	1,796
	1,550	3,346
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**33,175**	36,197
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**28,311**	36,305
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**2,318**	3,052
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.	**–**	794
	63,804	76,348
Other payables due to:		
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	**27,080**	30,545
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.	**1,288**	–
Mr. Zhang Jun	**938**	938
	29,306	31,483
Prepayment to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**1,085**	1,085

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2016

19 COMMITMENTS

(a) Capital commitments

	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
Property, plant and equipment	**22,626**	577

(b) Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	(Unaudited) 30 June 2016 RMB'000	(Audited) 31 December 2015 RMB'000
No later than 1 year	**9,739**	8,320
Later than 1 year and no later than 3 years	**4,625**	2,127
Later than 3 years	**10,681**	9,155
	25,045	19,602

OTHER INFORMATION

CHANGE IN DIRECTOR'S INFORMATION

There were changes in information of a director, which is required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), since the date of the 2015 Annual Report of the Company as follows:

– Mr. Lee Siang Chin, independent non-executive director, ceased to be an independent non-executive director of Tune Insurance Malaysia Berhad with effect from 30 April 2016, and he has been appointed as an independent director and a member of the Audit Committee of Maybank Kim Eng Securities (Thailand) Public Company Limited (a company listed on the Stock Exchange of Thailand) with effect from 1 August 2016.

DISCLOSURE OF INTERESTS

A. Directors' interests and short positions in the securities of the Company and its associated corporations

As at 30 June 2016, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	880,346,000(1)	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800(2)	
	Beneficial owner	760,000	
		993,406,800	58.558%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000(3)	
	Beneficial owner	492,000	
		24,792,000	1.461%
Mr. Yuan Pengbin	Beneficial owner	1,151,600	0.068%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Mr. Lee Siang Chin	Interest of controlled corporation	1,000,000(4)	0.059%
Mr. Yang Qingli	Interest of spouse	77,000(5)	0.005%

OTHER INFORMATION

Notes:

(1) These shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. As Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust as well as the sole director of Hilong Group Limited, he is deemed to be interested in these shares.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. As Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts as well as the sole director of North Violet Investment Limited and LongZhi Investment Limited, he is deemed to be interested in these shares.

(3) These shares are held by Younger Investment Limited of which Ms. Zhang Shuman is the sole director. Ms. Zhang Shuman is therefore deemed to be interested in these shares.

(4) These shares are held by Stenying Holdings Ltd., a company controlled by Mr. Lee Siang Chin and the entire share capital of which is held by Ms. Koo Yoon Kin, spouse of Mr. Lee Siang Chin. Mr. Lee Siang Chin is therefore deemed to be interested in these shares.

(5) These shares are held by Ms. Gao Chunyi, spouse of Mr. Yang Qingli. Mr. Yang Qingli is therefore deemed to be interested in these shares.

(b) Long positions in the underlying shares of the Company

Name of Director	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Mr. Yuan Pengbin	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%
Mr. Wang Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%

(c) Long positions in the shares of associated corporation of the Company

Name of Director	Capacity	Name of associated corporation	Number of shares interested	Percentage of the issued share capital of the associated corporation
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust	Hilong Group Limited	100	100%

OTHER INFORMATION

B. Substantial shareholders' interests or short positions in the securities of the Company

As at 30 June 2016, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/ underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	880,346,000[(1)]	51.89%
SCTS Capital Pte Ltd.	Nominee	1,026,950,800[(1)(2)]	60.54%
Standard Chartered Trust (Singapore) Limited	Trustee	1,026,950,800[(1)(2)]	60.54%
Ms. Gao Xia	Interest of spouse	994,006,800[(3)]	58.59%
Wellington Management Group LLP	Interest of controlled corporation	136,941,000[(4)]	8.07%

Notes:

(1) 880,346,000 shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts.

(3) Ms. Gao Xia is the spouse of Mr. Zhang Jun and is therefore deemed to be interested in the shares and underlying shares of the Company in which Mr. Zhang Jun is interested.

(4) 113,498,000 shares are held by Wellington Management International Ltd, which is 100% controlled by Wellington Management Global Holdings, Ltd., which in turn is 94.10% controlled by Wellington Investment Advisors Holdings LLP ("**WIAH**"). 23,443,000 shares are held by Wellington Management Company LLP, which is 99.99% controlled by WIAH. WIAH is 99.99% controlled by Wellington Group Holdings LLP, which is then 99.70% controlled by Wellington Management Group LLP.

OTHER INFORMATION

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a pre-IPO share option scheme (the "**Pre-IPO Scheme**") on 28 February 2011. The Pre-IPO Scheme commenced on 1 January 2011. The grantees to whom an option has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date of listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing Date**") and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period, which must not be more than 10 years from the Listing Date. During the year of 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO Scheme, have been granted.

The following table sets forth particulars of the options granted and outstanding under the Pre-IPO Scheme and their movements during the Interim Period:

	Number of share options								
Category/ name of grantees	**Outstanding as at 1 January 2016**	**Granted during the Interim Period**	**Exercised during the Interim Period**	**Cancelled/ lapsed during the Interim Period**	**Outstanding as at 30 June 2016**	**Exercise price** HK$	**Weighted average closing price immediately before exercise** HK$	**Date of grant**	**Exercise period**
Directors									
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
In aggregate	5,500,000	–	–	–	5,500,000				
Employees of the Group other than Directors									
In aggregate	25,243,900	–	–	(1,569,600)	23,674,300	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Total	30,743,900	–	–	(1,569,600)	29,174,300				

OTHER INFORMATION

POST-IPO SHARE OPTION SCHEME

The Company adopted another share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. Further details of the Post-IPO Scheme are set out in note 10 to the condensed consolidated interim financial information and the circular of the Company dated 10 April 2013. 20% of the share options granted under the Post-IPO Scheme on 5 February 2014 will be vested on each anniversary of the date of grant until 5 February 2019. Details of movements in the options granted and outstanding under the Post-IPO Scheme during the Interim Period are as follows:

	Number of share options									
Category/ name of grantee	Outstanding as at 1 January 2016	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2016	Exercise price HK$	Closing price immediately before the date of grant HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Employees of the Group other than Directors										
In aggregate	18,060,300	–	–	(839,100)	17,221,200	5.93	5.72	–	5 February 2014	5 February 2015 – 4 February 2024

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

On 16 September 2013, the Company as borrower entered into a facility agreement with, amongst others, certain of its offshore subsidiaries as guarantors, Deutsche Bank AG, Singapore branch and The Hongkong and Shanghai Banking Corporation Limited as mandated lead arrangers and bookrunners, and a group of financial institutions as lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$147,250,000 and a Hong Kong dollar term loan facility in the amount of HK$408,812,500, with final maturity of 36 months after the date of the facility agreement and an interest of LIBOR or HIBOR (as the case may be) plus 3.30 per cent. per annum. The facility agreement contains specific performance obligations imposed on Mr. Zhang Jun, a controlling shareholder of the Company, to the effect that Mr. Zhang Jun shall continue, during the term of the facility agreement, (i) to maintain, directly or indirectly, not less than 55% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board of Directors of the Company (the "**Board**"). A breach of any of such obligations will constitute an event of default under the facility agreement which enables the lenders to cancel all or any part of their respective commitments under the facility agreement immediately and the outstanding amount together with interest accrued thereon may become immediately due and payable. In April 2014, the Company obtained consent from majority lenders to lower the minimum requirement of the beneficial shareholding interest of Mr. Zhang Jun in relation to (i) above from 55% to 50%.

On 28 April 2014, the Company as borrower entered into another facility agreement with, amongst others, certain of its offshore subsidiaries as guarantors, The Hongkong and Shanghai Banking Corporation Limited as the mandated lead arranger and bookrunner, and a group of financial institutions as lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$74,000,000 and a Hong Kong dollar term loan facility in the amount of HK$201,500,000, with final maturity of 48 months after the date of the facility agreement and an interest of LIBOR or HIBOR (as the case may be) plus 3.25 per cent. per annum. The facility agreement contains specific performance obligations imposed on Mr. Zhang Jun, a controlling shareholder of the Company, to the effect that Mr. Zhang Jun to continue, during the term of the facility agreement, (i) to maintain, directly or indirectly, not less than 50% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board. A breach of any of such obligations will constitute an event of default under the facility agreement which enables the lenders to cancel all or any part of their respective commitments under the facility agreement immediately and the outstanding amount together with interest accrued thereon may become immediately due and payable.

OTHER INFORMATION

On 30 July 2015, the Company as borrower entered into a facility agreement with, amongst others, certain of its offshore subsidiaries as guarantors, China CITIC Bank International Limited and Citigroup Global Markets Asia Limited as the mandated lead arrangers and bookrunners, and a group of financial institutions as lenders in relation to a dual-currency term loan facility consists of a US dollar term loan facility in the amount of US$139,777,700 and a Hong Kong dollar term loan facility in the amount of HK$380,610,825, with final maturity of 36 months after the date of the facility agreement and an interest of LIBOR or HIBOR (as the case may be) plus 3.20 per cent. per annum. The facility agreement contains specific performance obligations imposed on Mr. Zhang Jun, a controlling shareholder of the Company, to the effect that Mr. Zhang Jun to continue, during the term of the facility agreement, (i) to maintain, directly or indirectly, not less than 45% of the beneficial shareholding interest in the issued share capital of the Company; (ii) to maintain control of the Company; (iii) to remain as the single largest shareholder of the Company; and (iv) to remain as chairman of the Board. A breach of any of such obligations will constitute an event of default under the facility agreement which enables the lenders to cancel all or part of their respective commitments under the facility agreement immediately and/or to declare that all or any part of the outstanding amount together with interest and all other amounts accrued thereon may become immediately due and payable.

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 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 of 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 REPORT

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 and the interim report for the Interim Period before the results and the report 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.

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