Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,929.0 million, representing a decrease of approximately 22.4% as compared with 2015.
- Gross profit was approximately RMB666.8 million, representing a decrease of approximately 17.7% as compared with 2015. Gross profit margin increased from 32.6% in 2015 to 34.6% in 2016.
- Profit attributable to equity owners of the Company was approximately RMB124.6 million, representing a decrease of approximately 22.6% as compared with 2015.
- Basic earnings per share was approximately RMB0.0735, representing a decrease of 22.6% as compared with 2015.
- The Board resolved to recommend a final dividend of HK1.0 cent per share for the year ended 31 December 2016, which is subject to the shareholders' approval at the forthcoming annual general meeting of the Company.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Hilong Holding Limited (the "**Company**" or "**Hilong**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRS**") for the year ended 31 December 2016 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016

	Note	**Year ended 31 December** **2016** ***RMB'000***	2015 *RMB'000*
Revenue	*3*	**1,929,037**	2,484,329
Cost of sales		**(1,262,243)**	(1,674,423)
Gross profit		**666,794**	809,906
Selling and marketing expenses		**(125,098)**	(109,181)
Administrative expenses		**(311,589)**	(372,813)
Other gains – net	*6*	**262,354**	96,609
Operating profit		**492,461**	424,521
Finance income		**8,680**	9,169
Finance costs		**(332,810)**	(238,693)
Finance costs – net	*7*	**(324,130)**	(229,524)
Share of profit of investments accounted for using equity method		**7,297**	4,357
Profit before income tax		**175,628**	199,354
Income tax expense	*8*	**(47,719)**	(25,243)
Profit for the year		**127,909**	174,111
Profit attributable to:			
Equity owners of the Company		**124,611**	160,983
Non-controlling interests		**3,298**	13,128
		127,909	174,111
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*9*	**0.0735**	0.0949
Diluted earnings per share	*9*	**0.0735**	0.0949
Dividends	*10*	**15,175**	28,426

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**127,909**	174,111
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**132,722**	1,364
Other comprehensive income for the year, net of tax	**132,722**	1,364
Total comprehensive income for the year	**260,631**	175,475
Attributable to:		
Equity owners of the Company	**257,333**	162,347
Non-controlling interests	**3,298**	13,128
	260,631	175,475

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**3,139,744**	3,037,789
Lease prepayments		**88,567**	90,694
Intangible assets		**173,581**	156,355
Investments accounted for using equity method		**57,615**	59,221
Deferred income tax assets		**143,198**	131,144
Other long-term assets		**4,313**	1,563
		3,607,018	3,476,766
Current assets			
Inventories		**798,759**	804,194
Trade and other receivables	*4*	**2,040,171**	1,857,619
Current income tax recoverable		**39,768**	32,588
Restricted cash		**155,036**	71,868
Cash and cash equivalents		**657,422**	821,364
		3,691,156	3,587,633
Total assets		**7,298,174**	7,064,399
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*11*	**141,976**	141,976
Other reserves		**1,133,443**	1,127,528
Currency translation differences		**15,277**	(117,445)
Retained earnings		**1,963,797**	1,869,990
		3,254,493	3,022,049
Non-controlling interests		**237,385**	234,087
Total equity		**3,491,878**	3,256,136

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**1,317,411**	1,084,464
Deferred income tax liabilities		**44,113**	45,193
Deferred revenue		**35,822**	23,171
		1,397,346	1,152,828
Current liabilities			
Trade and other payables	*5*	**950,912**	1,058,234
Current income tax liabilities		**25,416**	3,625
Borrowings		**1,430,678**	1,592,448
Derivative financial instruments		**1,097**	1,006
Deferred revenue		**847**	122
		2,408,950	2,655,435
Total liabilities		**3,806,296**	3,808,263
Total equity and liabilities		**7,298,174**	7,064,399

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Capital and reserves attributable to equity owners						
	Ordinary shares *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Cumulative translation differences *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2015	141,972	1,117,187	1,778,090	(118,809)	2,918,440	224,809	3,143,249
Comprehensive income							
Profit for the year	–	–	160,983	–	160,983	13,128	174,111
Other comprehensive income							
Currency translation differences	–	–	–	1,364	1,364	–	1,364
Total comprehensive income for the year	–	–	160,983	1,364	162,347	13,128	175,475
Appropriation to statutory reserve	–	2,158	(2,158)	–	–	–	–
Transactions with owners							
Pre-IPO share option plan	–	1,254	–	–	1,254	–	1,254
2013 Share Option Scheme	–	6,834	–	–	6,834	–	6,834
Exercise of share options	4	95	–	–	99	–	99
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	(3,850)	(3,850)
Dividends in respect of 2014	–	–	(66,925)	–	(66,925)	–	(66,925)
As at 31 December 2015	141,976	1,127,528	1,869,990	(117,445)	3,022,049	234,087	3,256,136
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 year	**–**	**–**	**124,611**	**–**	**124,611**	**3,298**	**127,909**
Other comprehensive income							
Currency translation differences	**–**	**–**	**–**	**132,722**	**132,722**	**–**	**132,722**
Total comprehensive income for the year	**–**	**–**	**124,611**	**132,722**	**257,333**	**3,298**	**260,631**
Appropriation to statutory reserve	**–**	**1,805**	**(1,805)**	**–**	**–**	**–**	**–**
Transactions with owners							
Pre-IPO share option plan	**–**	**140**	**–**	**–**	**140**	**–**	**140**
2013 Share Option Scheme	**–**	**3,970**	**–**	**–**	**3,970**	**–**	**3,970**
Dividends in respect of 2015	**–**	**–**	**(28,999)**	**–**	**(28,999)**	**–**	**(28,999)**
As at 31 December 2016	**141,976**	**1,133,443**	**1,963,797**	**15,277**	**3,254,493**	**237,385**	**3,491,878**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 and offshore engineering services.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 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, on HKFRS 5, "Non-current assets held for sale and discontinued operations", HKFRS 7, "Financial instruments: Disclosures", HKAS 19, "Employee benefits", HKAS 34, "Interim financial reporting".
- 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 did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New and amended standards and interpretations not yet adopted

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

- Amendments to HKAS 12, "Income taxes", effective for the accounting period beginning on or after 1 January 2017.
- Amendments to HKAS 7 "Statement of cash flows", 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.
- Amendments to HKFRS 2, "Classification and Measurement of Share-based Payment Transactions", 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.
- 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.

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

3 SEGMENT INFORMATION

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

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

The corporate overheads are not considered as business segment expenses in 2016 and 2015 as such expenses are general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

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

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

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

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2016 and 2015 are set out as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Oilfield equipment manufacturing and services	**781,190**	676,462
Line pipe technology and services	**371,308**	295,038
Oilfield services	**708,699**	922,979
Offshore engineering services	**67,840**	589,850
	1,929,037	2,484,329

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2016 is as follows:

	Year ended 31 December 2016				
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	874,320	416,408	708,699	67,840	2,067,267
Inter-segment sales	(93,130)	(45,100)	–	–	(138,230)
Revenue from external customers	781,190	371,308	708,699	67,840	1,929,037
Results					
Segment gross profit/(losses)	252,013	118,663	296,372	(254)	666,794
Segment profit/(losses)	274,273	63,346	221,682	(1,826)	557,475
Corporate overheads					(65,014)
Operating profit					492,461
Finance income					8,680
Finance costs					(332,810)
Share of profit of investments accounted for using equity method					7,297
Profit before income tax					175,628
Other information					
Depreciation of property, plant and equipment	70,050	13,579	103,003	51,777	238,409
Amortization of lease prepayments	1,223	904	–	–	2,127
Amortization of intangible assets	411	187	–	976	1,574
Capital expenditure	105,519	4,423	94,269	65,097	269,308

	As at 31 December 2016				
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	2,912,830	719,890	2,279,368	1,328,471	7,240,559
Investments accounted for using equity method					57,615
Total assets					7,298,174
Total liabilities	3,152,492	241,305	371,919	40,580	3,806,296

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

	Year ended 31 December 2015				
Business segment	Oilfield equipment manufacturing and services *RMB'000*	Line pipe technology and services *RMB'000*	Oilfield services *RMB'000*	Offshore engineering services *RMB'000*	Total *RMB'000*
Revenue					
Segment revenue	760,749	439,741	922,979	589,850	2,713,319
Inter-segment sales	(84,287)	(144,703)	–	–	(228,990)
Revenue from external customers	676,462	295,038	922,979	589,850	2,484,329
Results					
Segment gross profit	270,944	92,766	352,023	94,173	809,906
Segment profit	147,309	30,039	225,382	80,164	482,894
Corporate overheads					(58,373)
Operating profit					424,521
Finance income					9,169
Finance costs					(238,693)
Share of profit of investments accounted for using equity method					4,357
Profit before income tax					199,354
Other information					
Depreciation of property, plant and equipment	69,142	12,630	89,781	42,734	214,287
Amortization of lease prepayments	1,223	904	–	–	2,127
Amortization of intangible assets	411	187	11	393	1,002
Capital expenditure	53,245	37,315	120,397	95,534	306,491

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

(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:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
The PRC	**716,924**	1,253,316
Russia, Central Asia and East Europe	**479,344**	173,518
North and South America	**242,997**	595,220
South Asia	**239,449**	133,357
Africa	**211,443**	260,487
Middle East	**38,852**	68,317
Others	**28**	114
	1,929,037	2,484,329

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

	Carrying amount of segment assets As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
The PRC	**2,056,905**	2,100,118
North and South America	**475,879**	492,723
Africa	**316,258**	318,813
South Asia	**247,784**	174,119
Russia, Central Asia and East Europe	**173,235**	69,291
Middle East	**131,831**	129,774
	3,401,892	3,284,838

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
The PRC	**93,181**	163,475
Russia, Central Asia and East Europe	**84,838**	2,391
South Asia	**67,939**	170
North and South America	**11,812**	33,275
Africa	**10,485**	105,261
Middle East	**1,053**	1,919
	269,308	306,491

4 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bills receivable *(a)*	**34,073**	34,615
Trade receivables *(b)*	**1,656,686**	1,548,966
– Due from related parties	**12,869**	38,316
– Due from third parties	**1,643,817**	1,510,650
Less: provision for impairment of receivables *(d)*	**(33,511)**	(27,237)
Trade receivables – net	**1,623,175**	1,521,729
Other receivables *(c)*	**196,479**	164,092
Prepayments	**184,894**	133,837
Dividend receivables	**1,550**	3,346
Trade and other receivables – net	**2,040,171**	1,857,619

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

As at 31 December 2016 and 2015, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– USD	**944,882**	807,771
– RMB	**859,087**	898,806
– RUB	**132,277**	41,273
– AED	**25,965**	29,164
– NGN	**23,978**	41,702
– CAD	**22,164**	20,970
– KZT	**16,793**	2,478
– COP	**7,094**	8,951
– PKR	**6,485**	4,182
– ALL	**790**	181
– HKD	**508**	410
– ETB	**114**	1,583
– EUR	**34**	148
	2,040,171	1,857,619

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

(b) The ageing analysis of trade receivables based on invoice date, before provision for impairment, as at 31 December 2016 and 2015 was as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**623,899**	725,537
– Over 90 days and within 180 days	**134,241**	264,531
– Over 180 days and within 360 days	**234,892**	236,135
– Over 360 days and within 720 days	**510,644**	231,735
– Over 720 days	**153,010**	91,028
	1,656,686	1,548,966

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

As at 31 December 2016, trade receivables of RMB33,511,000 (31 December 2015: RMB27,237,000) were impaired and fully provided for impairment losses. Provision for impairment of trade receivables has been made for estimated irrecoverable amounts from the sales of goods/rendering of service. This provision has been determined by reference to past default experience.

As at 31 December 2016, trade receivables of RMB970,243,000 (31 December 2015: RMB796,192,000) were past due but not impaired. These mainly relate to customers that are state-owned companies in the PRC and overseas countries which have good credit reputation and trading records with the Group. Based on the past experiences, the directors believe that no impairment provision is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables past due but not impaired at respective balance sheet dates is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Within 90 days	**64,203**	–
– Over 90 days and within 180 days	**149,400**	264,531
– Over 180 days and within 360 days	**223,380**	236,135
– Over 360 days and within 720 days	**413,806**	231,735
– Over 720 days	**119,454**	63,791
	970,243	796,192

(c) Details of other receivables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Due from related parties	**104,618**	76,348
Deposits	**36,964**	25,698
Staff advances	**26,447**	22,948
Value added tax refund	**1,561**	11,466
Others	**26,889**	27,632
	196,479	164,092

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**(27,237)**	(25,793)
Additional provision	**(6,274)**	(10,483)
Write off of impairment	**–**	9,039
At the end of the year	**(33,511)**	(27,237)

5 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bills payable	**96,287**	75,393
Trade payables:		
– Due to third parties	**511,514**	702,395
Other payables:	**135,965**	80,336
– Due to related parties	**97,386**	31,483
– Due to third parties	**38,579**	48,853
Staff salaries and welfare payables	**45,174**	43,022
Advances from customers	**95,367**	70,913
Interest payables	**21,807**	15,286
Accrued taxes other than income tax	**36,108**	53,374
Dividends payable	**1,463**	1,463
Other liabilities	**7,227**	16,052
	950,912	1,058,234

As at 31 December 2016 and 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.

As at 31 December 2016 and 2015, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– RMB	**598,095**	706,646
– USD	**273,318**	291,113
– RUB	**24,958**	21,613
– PKR	**13,359**	6,496
– NGN	**12,173**	10,736
– ETB	**6,766**	6,557
– AED	**6,014**	11,947
– HKD	**5,077**	13
– KZT	**4,316**	1,542
– CAD	**3,536**	1,485
– ALL	**3,300**	86
	950,912	1,058,234

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**325,061**	537,038
– Over 90 days and within 180 days	**170,397**	101,272
– Over 180 days and within 360 days	**10,400**	62,662
– Over 360 days and within 720 days	**5,458**	1,275
– Over 720 days	**198**	148
	511,514	702,395

6 OTHER GAINS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants	**22,818**	16,317
Gains on disposal of property, plant and equipment – net	**15,465**	2,909
Exchange gains	**222,116**	78,324
Others	**1,955**	(941)
	262,354	96,609

7 FINANCE COSTS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income:		
– Interest income derived from bank deposits	**8,680**	6,533
– Fair value gains on interest rate swaps and cross currency swaps	**–**	1,474
– Fair value gains on foreign exchange forward contracts	**–**	1,162
	8,680	9,169
Finance costs:		
– Interest expense on bank borrowings	**(161,128)**	(136,017)
Less: interest capitalised	**–**	12,971
– Exchange losses	**(157,277)**	(115,647)
– Fair value losses on interest rate swaps	**(521)**	–
– Fair value losses on foreign exchange forward contracts	**(13,884)**	–
	(332,810)	(238,693)
Finance costs – net	**(324,130)**	(229,524)

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**60,828**	45,357
Deferred income tax	**(13,109)**	(20,114)
Income tax expense	**47,719**	25,243

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**175,628**	199,354
Tax calculated at statutory tax rates applicable to each group entity	**17,370**	14,784
Tax effect of:		
Expenses not deductible for tax purpose	**18,368**	5,138
Additional deduction for research and development expense *(b)*	**(5,182)**	(4,447)
Utilisation of previously unrecognised tax losses	**(6,042)**	(8,597)
Tax losses of subsidiaries not recognised	**23,205**	18,365
Tax charge	**47,719**	25,243

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% for the years ended 31 December 2016 and 2015.

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates of 15% to 34% prevailing in the places in which these enterprises operated for the year ended 31 December 2016 (31 December 2015: 20% to 34%).

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

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

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 be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the PRC holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2013 to 2015. Hilong Energy is in the process of renewal of the qualification.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 30 December 2016 and 29 December 2015, all the earnings generated by the Company's PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB5,759,000 (2015: RMB2,776,000) have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2016 and 2015. As at 31 December 2016, deferred income tax liabilities of RMB57,223,000 (31 December 2015: RMB51,464,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,144,460,000 (31 December 2015: RMB1,029,280,000).

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

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

	Year ended 31 December	
	2016	2015
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Shanghai Hilong Shine New Material Co., Ltd.*	**15%**	15%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	15%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	15%
Shanghai Boteng Welding Consumable Co., Ltd.*	**15%**	25%
Shanxi Tangrong Hilong Drill Tools Co., Ltd.*	**15%**	15%

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

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

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

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

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

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

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

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

* Shanxi Tangrong Hilong Drill Tools Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2016 to 2018.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2016 and 2015.

(b) Additional deduction for research and development expense

Pursuant to the CIT Law, an additional tax deduction relating to research and development expenses incurred is allowed, after the approval by the tax authorities is obtained. This additional allowed deduction is calculated at 50% of the actual research and development expenses incurred.

9 EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2016	2015
Profit attributable to equity owners of the Company *(RMB'000)*	**124,611**	160,983
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,423
Basic earnings per share *(RMB per share)*	**0.0735**	0.0949

Diluted

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

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

As at 31 December 2016, there were 29,174,300 (31 December 2015: 30,743,900) share options outstanding related to Pre-IPO share option plan. For the year ended 31 December 2016, as the average market share price of the ordinary shares during the year was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 31 December 2016, there were 17,221,200 (31 December 2015: 18,060,300) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2016 and 31 December 2015, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

10 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 24 March 2017, a final dividend of HKD0.0100 (equivalent to approximately RMB0.0089) per share for the year ended 31 December 2016 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 11 July 2017 to the shareholders of the Company whose names appear on the register of members of the Company as at 29 June 2017. The total amount is estimated to be HKD16,964,000 (equivalent to approximately RMB15,175,000). These financial statements do not reflect this dividend payable.

The dividend in respect of 2015 of HKD0.0200 (equivalent to RMB0.0171) per share, amounted to a total dividend of HKD33,929,000 (equivalent to RMB28,999,000), 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 year ended 31 December 2016 and paid out.

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

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

11 ORDINARY SHARES

	Note	**Number of ordinary shares**	**Nominal value of ordinary shares *(In HKD)***	**Equivalent nominal value of ordinary shares *(In RMB)***
As at 1 January 2015		1,696,390,600	169,639,060	141,971,504
Issue of shares upon exercise of options	*(a)*	48,000	4,800	4,002
As at 31 December 2015		1,696,438,600	169,643,860	141,975,506
As at 31 December 2016		1,696,438,600	169,643,860	141,975,506

(a) During the year ended 31 December 2015, a total of 48,000 ordinary shares 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.

12 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 24 March 2017, a dividend of HKD0.0100 (equivalent to approximately RMB0.0089) per share was proposed.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

	Year ended 31 December			
	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Oilfield equipment manufacturing and services				
– Drill pipes	**510,056**	**26.4**	417,600	16.8
– Oil country tubular goods ("**OCTG**") coating services	**202,671**	**10.5**	218,930	8.8
– Drill pipe components	**24,801**	**1.3**	11,588	0.5
– Hardbanding	**24,018**	**1.3**	9,147	0.4
– Others	**19,644**	**1.0**	19,197	0.7
Subtotal	**781,190**	**40.5**	676,462	27.2
Line pipe technology and services				
– OCTG coating materials	**86,078**	**4.5**	40,081	1.6
– Oil and gas line pipe coating materials	**104,045**	**5.4**	88,892	3.6
– Oil and gas line pipe coating services	**136,067**	**7.1**	127,887	5.1
– Corrosion Resistant Alloy (CRA) lined pipe	**8,039**	**0.4**	36,348	1.5
– Concrete Weighted Coating (CWC) services	**28,404**	**1.5**	–	–
– Pipeline inspection services	**8,675**	**0.4**	1,830	0.1
Subtotal	**371,308**	**19.3**	295,038	11.9
Oilfield services	**708,699**	**36.7**	922,979	37.2
Offshore engineering services	**67,840**	**3.5**	589,850	23.7
Total revenue	**1,929,037**	**100.0**	2,484,329	100.0

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

	Year ended 31 December			
	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
The PRC	**716,924**	**37.2**	1,253,316	50.4
Russia, Central Asia and East Europe	**479,344**	**24.8**	173,518	7.0
North and South America	**242,997**	**12.6**	595,220	24.0
South Asia	**239,449**	**12.4**	133,357	5.3
Africa	**211,443**	**11.0**	260,487	10.5
Middle East	**38,852**	**2.0**	68,317	2.7
Others	**28**	**0.0**	114	0.1
Total	**1,929,037**	**100.0**	2,484,329	100.0

Revenue decreased by RMB555.3 million, or 22.4%, from RMB2,484.3 million in 2015 to RMB1,929.0 million in 2016. Such decrease primarily reflected a decrease in revenue from the offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB104.7 million, or 15.5%, from RMB676.5 million in 2015 to RMB781.2 million in 2016. Such increase primarily reflected an increase in revenue derived from sales of drill pipes.

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

	Year ended 31 December	
	2016	2015
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**23,138**	11,947
– unit price *(RMB/tonne)*	**18,108**	21,152
Subtotal *(RMB'000)*	**418,978**	252,711
– The PRC market		
– volume *(tonnes)*	**5,366**	8,427
– unit price *(RMB/tonne)*	**16,973**	19,567
Subtotal *(RMB'000)*	**91,078**	164,889
Total *(RMB'000)*	**510,056**	417,600

Revenue from sales of drill pipes in the international market increased by RMB166.3 million, or 65.8%, from RMB252.7 million in 2015 to RMB419.0 million in 2016. The increase primarily reflected a 93.7% increase in the volume of drill pipes sold from 11,947 tonnes in 2015 to 23,138 tonnes in 2016, offset by a 14.4% decrease in the average selling price in the international market from RMB21,152 per tonne in 2015 to RMB18,108 per tonne in 2016. 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. While the decrease in average selling price primarily reflected a higher proportion of revenue generated from American Petroleum Institute ("**API**") drill pipe products, which usually have a lower unit price than non-API drill pipe products, in 2016 compared to that of 2015.

Revenue from sales of drill pipes in the PRC market decreased by RMB73.8 million, or 44.8%, from RMB164.9 million in 2015 to RMB91.1 million in 2016. The decrease reflected a 36.3% decrease in volume of drill pipes sold in the PRC market from 8,427 tonnes in 2015 to 5,366 tonnes in 2016 and, a 13.3% decrease in the average selling price in the PRC market from RMB19,567 per tonne in 2015 to RMB16,973 per tonne in 2016. The decrease in the sales volume primarily reflected the delay in capital and operation spending by certain oil and gas companies in the PRC market. While the decrease in average selling price primarily reflected (i) a higher proportion of revenue generated from API drill pipe products in 2016 compared to that in 2015, and (ii) a decrease in the guideline price of API drill pipe products based on the annual bid of both CNPC and Sinopec Group decreased in 2016 compared to that in 2015.

Revenue from OCTG coating services decreased by RMB16.2 million, or 7.4%, from RMB218.9 million in 2015 to RMB202.7 million in 2016. The deceasing was mainly due to a decrease in revenue from OCTG coating services in both the international market and the PRC market due to the delay in capital and operation spending by certain international and PRC oil and gas companies in 2016.

Revenue from sales of drill pipe components increased by RMB13.2 million, or 113.8%, from RMB11.6 million in 2015 to RMB24.8 million in 2016. The increase primarily reflected the increase in demands for tool joints and pipes from customers in 2016 compared to that in 2015.

Line pipe technology and services. Revenue from the line pipe technology and services segment increased by RMB76.3 million, or 25.9%, from RMB295.0 million in 2015 to RMB371.3 million in 2016. Such increase primarily reflected an increase in the revenue derived from OCTG coating materials and CWC services, though partially offset by a decrease in the revenue derived from CRA lined pipe.

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

The increase in revenue from CWC services reflected the increasing demand for CWC services in the PRC in 2016.

The decrease in revenue from CRA lined pipe reflected the decreasing demand for CRA lined pipe in the PRC in 2016.

Oilfield services. Revenue from the oilfield services segment decreased by RMB214.3 million from RMB923.0 million in 2015 to RMB708.7 million in 2016. Such decrease was attributable to (i) the decrease in revenue from the provision of OCTG trading and logistics services to oilfield services clients, and (ii) the lower oilfield services revenue due to the fact that some drilling rigs were relocated and had no workload during such relocation.

Offshore engineering services. Revenue from the offshore engineering services segment in 2016 represented the revenue recognized from the completion of the TIMAS PHE WMO Project. Besides, following the completion of the two offshore engineering procurement, construction and installation ("**EPCI**") service contracts with CNOOC, further revenue of such two projects got recognized in 2016.

Cost of Sales/Services

Cost of sales/services decreased by RMB412.2 million, or 24.6%, from RMB1,674.4 million in 2015 to RMB1,262.2 million in 2016. Such decrease primarily reflected a decrease in the cost of the offshore engineering services segment.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB143.1 million, or 17.7%, from RMB809.9 million in 2015 to RMB666.8 million in 2016. Gross profit margin increased from 32.6% in 2015 to 34.6% in 2016.

The slight increase in gross profit margin primarily reflected the different revenue mix generated during 2016 as compared to 2015. In 2016, the oilfield services segment with a higher gross profit margin accounted for a higher proportion of revenue while the offshore engineering services segment with a lower gross profit margin accounted for a lower proportion of revenue.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB15.9 million, or 14.6%, from RMB109.2 million in 2015 to RMB125.1 million in 2016, mainly reflecting (i) an increase in freight fees from the expansion of the oilfield equipment manufacturing and services segment in the Russia market, and (ii) the expenses due to the offshore engineering services segment. For 2015, the 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 RMB61.2 million, or 16.4%, from RMB372.8 million in 2015 to RMB311.6 million in 2016. Such decrease primarily reflected a decrease in staff costs, travelling expenses and office expenses.

Other Gains – net

The Group recognized a net gain of RMB96.6 million in 2015 and RMB262.4 million in 2016. The net gain recognized in 2016 primarily reflected an exchange gain of RMB222.1 million from operating activities as a combined result of the appreciation of United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**") and the depreciation of Canadian Dollar and Naira, and government grants of RMB22.8 million in relation to new and high-technology projects. The net gain recognized in 2015 primarily reflected a net foreign exchange gain of RMB78.3 million, and government grants of RMB16.3 million in relation to new and high-technology projects.

Finance Costs – net

Finance costs – net in 2016 mainly reflected (i) interest expenses from bank borrowings, after capitalization, of RMB161.1 million, and (ii) the appreciation of United States Dollar and Hong Kong Dollar resulting in an exchange loss of RMB157.3 million from financing activities. Finance costs – net in 2015 mainly reflected (i) interest expenses from bank borrowings, after capitalization, of RMB123.0 million, and (ii) foreign exchange loss of RMB115.7 million.

Profit before Income Tax

As a result of the foregoing, profit before income tax decreased from RMB199.4 million in 2015 to RMB175.6 million in 2016.

Income Tax Expense

The Group recognized income tax expenses of RMB25.2 million in 2015 and RMB47.7 million in 2016. The effective tax rate was approximately 12.7% in 2015 and 27.1% in 2016. The increase in effective tax rate was mainly attributable to the increase in interest expenses from offshore borrowings that were not deductible.

Profit Attributable to Equity Owners of the Company

As a result of the foregoing, profit attributable to equity owners of the Company decreased from RMB161.0 million in 2015 to RMB124.6 million in 2016.

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 average inventory for the years indicated:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Inventory	**798,759**	804,194
Turnover days of inventory (in days)[(1)]	**236**	179

(1) Turnover days of inventory for a year equals average inventory divided by the total cost of sales and then multiplied by 365 for each of the years ended 31 December 2015 and 2016. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase in turnover days of inventory from 179 days as at 31 December 2015 to 236 days as at 31 December 2016 primarily reflected lower revenue derived from the provision of services, which generally has less consumption of inventory compared to that from sales of goods.

Trade and Other Receivables

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables		
– Due from third parties	**1,643,817**	1,510,650
– Due from related parties	**12,869**	38,316
– Less: Provision for impairment of receivables	**(33,511)**	(27,237)
Trade receivables – net	**1,623,175**	1,521,729
Other receivables		
– Due from third parties	**91,861**	87,744
– Due from related parties	**104,618**	76,348
Other receivables	**196,479**	164,092
Bills receivable	**34,073**	34,615
Prepayments	**184,894**	133,837
Dividend receivables	**1,550**	3,346
Total	**2,040,171**	1,857,619

Net trade receivables represent receivables from the sales of products and the 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 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables, net		
– Within 90 days	**623,899**	725,537
– Over 90 days and within 180 days	**134,241**	264,531
– Over 180 days and within 360 days	**234,892**	236,135
– Over 360 days and within 720 days	**510,644**	231,735
– Over 720 days	**119,499**	63,791
	1,623,175	1,521,729
Turnover days of trade receivables, net(1)	**298**	225

(1) Turnover days of net trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2015 and 2016. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the year plus that at the end of the year, divided by two.

As at 31 December 2016, trade receivables of RMB970.2 million, representing 59.8% of the Group's trade receivables after impairment, remained unpaid beyond the general credit period but were not impaired, as these trade receivables were due from companies with sound credit history and trading records with the Group or due from the subsidiaries' related party entities. As at the dates indicated, we believe that there had been no change in their credit history or quality and the balances were fully collectable. We did not have any material dispute with these customers arising from the settlement of outstanding balances of trade receivables in the past. Therefore, we believe that no additional provision for impairment is necessary in respect of these balances.

The increase in turnover days of net trade receivables from 225 days as at 31 December 2015 to 298 days as at 31 December 2016 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was less active and slowed down in 2016.

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 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bills payable	**96,287**	75,393
Trade payables		
– Due to related parties	**–**	–
– Due to third parties	**511,514**	702,395
Other payables		
– Due to related parties	**97,386**	31,483
– Due to third parties	**38,579**	48,853
Staff salaries and welfare payable	**45,174**	43,022
Advance from customer	**95,367**	70,913
Interest payables	**21,807**	15,286
Accrued taxes other than income tax	**36,108**	53,374
Dividends payable	**1,463**	1,463
Other liabilities	**7,227**	16,052
	950,912	1,058,234

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**325,061**	537,038
– Over 90 days and within 180 days	**170,397**	101,272
– Over 180 days and within 360 days	**10,400**	62,662
– Over 360 days and within 720 days	**5,458**	1,275
– Over 720 days	**198**	148
	511,514	702,395
Turnover days of trade payables[1]	**176**	138

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2015 and 2016. Average trade payables equals balance of trade payables at the beginning of the year plus that at the end of the year, divided by two.

The decrease in the balance of trade payables due to third parties from 31 December 2015 to 31 December 2016 primarily reflected the decrease in unbilled payables due to suppliers of the offshore engineering services segment.

BUSINESS REVIEW

In 2016, the oil and gas industry moved forward with difficulties in the process of re-balance. Although there was still a decline in annual average international oil price as compared to that of the previous year, the international oil price started to recover slowly after rebounding from the bottom, as driven by the joint agreement to reduce production entered into by the Organization of the Petroleum Exporting Countries ("**OPEC**") and certain non-OPEC oil producing countries during the fourth quarter. Affected by the overall market depression and the reduction in investment during the first three quarters, the business operations of Hilong experienced severe challenges during this period. Nevertheless, 2016 was also a year for Hilong to further intensify its internationalization process. During this year, the drill pipe plant in Russia was put into operation, the oilfield services entered the European drilling services market for the first time, and overseas contracts for offshore engineering were obtained. All of these contributed to the continuous growth impetus for the Company's sustainable development in the future. Overall, Hilong maintained relatively stable operations during the reporting period, realizing a revenue of RMB1,929 million, representing a decrease of 22.4% as compared to that in 2015. Profit attributable to equity owners of the Company was RMB125 million, representing a decrease of 22.6% as compared to that in 2015.

Oilfield Services

The oilfield services segment successfully maintained healthy operations as a whole in 2016, and remained as the core revenue source of the Company. During the period, this segment realized a revenue of RMB709 million, representing a decrease of 23.2% as compared to that of the same period in 2015. As the core business of the segment, the drilling services maintained a stable development, and achieved a revenue of RMB610 million during the reporting period, representing a decrease of 11.7% as compared to that of the same period in 2015. Due to the continuous slump of the global oil and gas market, the oilfield services industry, both domestic and overseas, is generally faced with the predicament of a sharp decline in production volume and a significant drop in day rate, especially in the first three quarters of 2016. Nevertheless, capitalizing on its high-end drilling rig fleet and a diversified customer base, Hilong actively participated in biddings in the market, adjusted its drilling rig allocation, and successfully secured the normal operations of its drilling rig fleet and a relatively strong bargaining power amid the turbulent market. In 2016, Hilong reasonably adjusted its oilfield services strategies, engaged a new customer, Pakistan Petroleum Limited and entered into a long-term drilling contract, which effectively enhanced the utilization rate of our drilling rigs. Hilong's oilfield services also entered the Europe's drilling services market for the first time in June. The ultra deep drilling service for Shell Oil Company Limited in the Albanian region was undertaken by the HL-30 drilling fleet of Hilong Oil Service & Engineering Albania SHPK. The HL-6 drilling fleet of the Hilong Petroleum Technology & Engineering Co., Ltd. successfully won the tender for the Geo-jade Petroleum's project in Kazakhstan, undertaking the turnkey drilling service. Hilong's capability of successfully engaging new customers and securing new contracts under tough market conditions has once again demonstrated its strong abilities, leading position and high customer recognition in the field of international premium onshore drilling services. While maintaining stable operations for its traditional advantageous business, Hilong also actively developed new business lines and expanded its operating model. Hilong has achieved a significant breakthrough in comprehensive services in 2016. After two years of incubation, Hilong has established its comprehensive services team, covering a number of areas including completion fluids, directional drilling, horizontal drilling, oil and gas testing, debris and sewage treatment and well completion, and has secured service contracts from various domestic and overseas customers. In 2016, the comprehensive services team of Hilong successfully entered into and implemented the project of oil and gas for testing in an exploration area for GCL-Poly Energy Holdings Limited in Ethiopia. The team also provided comprehensive technical services projects, including drilling fluid, completion fluid, directional drilling, horizontal drilling, debris and sewage treatment, for United Energy Group Limited in Pakistan. In the future, Hilong will continue to increase the power of its technology team and the investment of resources to vigorously expand the content and scope of its comprehensive services, and to develop it into a diversified revenue source for the oilfield services segment in the new development era, further pushing Hilong's transformation as an comprehensive integrated oilfield services provider.

Oilfield Equipment Manufacturing and Services

The oilfield equipment manufacturing and services segment achieved a total revenue of RMB781 million in 2016, representing an increase of 15.5% as compared to that of the same period in 2015. The revenue generated from the drill pipe and related products business amounted to RMB579 million, representing an increase of 26.4% as compared to 2015. The increase of revenue of the drill pipe and related products business was mainly attributed to the rapid growth of market share in Russia, and the replenishment of inventories from customers from other regions. As early as in 2015, Hilong had precisely captured the market dynamics, and actively adjusted its strategic focus of its sales regions. Under the depression of global oil and gas industry, Hilong decided to focus its resources on developing the demand for drill pipes in Russia and its surrounding areas. Hilong relocated parts of its production lines of drill pipes to Russia in 2015 in order to develop the drill pipe market for this region more effectively. Those production lines had commenced operations successfully in the second half of 2016, and secured a lot of orders. Localized production has made Hilong's products more competitive, and successfully helped Hilong expand its market share in Russia. In November 2016, Hilong successfully signed a bid order for a large quantity of drill pipes and related products with Rosneft Oil Company ("**Rosneft**"), and will provide drill pipes and related products for all nine sites of Rosneft in Russia in 2017. The bid order also further demonstrated the high level of customer satisfaction and recognition for Hilong. In addition, Hilong continued to invest in the product research, development and promotion of drill pipe products. In 2016, the successful improvement in respect of the research and development of materials and processes resulted in a substantial increase in production efficiency and a reduction of the production costs of drilling tools. In addition, certain non-API drill pipe products developed by Hilong such as sour service drill pipes were highly recognized by customers, and were widely applied across the industry.

The revenue generated from our OCTG coating services business was RMB203 million during the reporting period, representing a decrease of 7.4% as compared to that in 2015. The decline in coating services revenue was mainly due to the impact of the continuous depression of international oil prices and the decreasing demand in North America and PRC markets.

However, with the increase in oil prices in the fourth quarter, the coating business has shown signs of recovery, and secured several large orders in Russia. In 2016, OCTG coating services had a major breakthrough in the Middle East market, with liquid and powder coating being fully certified by Petroleum Development Oman. Meanwhile, we secured a trial order of ground pipelines for about 30 kilometers from Petroleum Development Oman in the second half of 2016. Since the establishment of the OCTG coating services business, Hilong has maintained its leading position in the area of coating services of drill pipes. In recent years, Hilong has continued to strive to expand its service scope and revenue sources. The Company has been actively promoting the application of coatings for tubings and casings, as well as coatings for ground-level pipelines, and has seen some fruitful results. In 2016, under the sluggish demand in the domestic OCTG coating market, we had a significant breakthrough in respect of ground-level pipeline coatings, securing orders in Dagang Oilfield and Changqing Oilfield respectively. The above-mentioned efforts in expanding production capacity and broadening our service scope have further strengthened the Company's competitiveness in the area of OCTG coating services over the past few years.

Line Pipe Technology and Services

The line pipe technology and services segment realized a revenue of RMB371 million in 2016, representing a significant increase of 25.9% as compared to that of 2015. For 2016 onwards, Hilong continued to implement the development strategy emphasizing diversification, high-end development and internationalization for this segment. It aims at strengthening Hilong's domestic and international competitiveness in the field of line pipe coating services through coordinating the development in both domestic and international markets, effectively expanding revenue sources, and balancing market risks. Despite the relatively tough challenges within this segment in 2016, Hilong still secured several orders from both domestic and overseas markets amid the competitive market environment, owing to its track record established through participation in large domestic projects such as West-East Gas Pipe Lines I, II and III Project and the relevant sections of the CNPC's Shaan-Jing III and IV Project in the past, and extensive experiences accumulated from overseas markets in recent years. These orders include the allocation and coating business of the Maoming petrochemical project for Sinopec Petroleum Engineering Company Limited ("**Maoming Project for Sinopec Petroleum**"); the contract of irregular bend tubes for KOC Company in Kuwait; the LNG Project in Pakistan; the coating business for High Sealed & Coupled Seamless Steel Pipe Company Limited (HSC) in Algeria; and the coating business for Shaan-Jing IV Project. During the year, the most remarkable achievement of this segment was the provision of the traditional anti-corrosive coating and offshore concrete weighted coating services under the Maoming Project for Sinopec Petroleum. This is the offshore concrete weighted pipeline project with the largest diameter domestically and internationally. Through this project, Hilong's weight production process and its ability have been greatly improved, and Hilong has accumulated experience for it to continue to undertake large diameter pipeline projects in the future in respect of the line pipe technology and services segment. The line pipe inspection business to maintain a promising development momentum, and has successfully provided pipeline inspection services in the external inspection project for Shanghai Network Pipeline Limited, the internal inspection project for the gas pipe in Ake Kashgar for Tarim Oilfield Southwest Exploration and Development Company, and the inspection for drilling tools and wear-resistant tape welding business provided by Hilong Oilfield Service & Engineering Albania SHPK for the Shell Oil project. These have expanded the Company's business scope and its international market. In addition, Hilong has also actively followed up with other customers regarding potential pipeline inspection services projects. These achievements are in line with the development plan of diversification, high-end development and internationalization for the line pipe technology and services segment, and will effectively improve the overall profitability of this segment. Synergic development between domestic and international markets will also facilitate the expansion of its revenue sources, the balance of market risks and the enhancement of Hilong's international competitiveness in the field of line pipe coating services.

Offshore Engineering Services

In 2016, our offshore engineering services segment faces tough challenges caused by low oil prices. During the reporting period, this segment achieved a total revenue of RMB67.84 million, representing a significant decline as compared to that of 2015. However, in 2015, the achievement from Hilong's successful offshore pipeline laying construction for CNOOC's East China Sea Project and the Weizhou Phase II Project in the Gulf of Tonkin of South China Sea were highly commended by the customers. A number of innovative design plans proposed by our design service team were highly recognized by the customers, and were tested during the execution process. It laid a solid foundation for Hilong to secure orders amid the very tough market environment.

In 2016, Hilong successfully secured the WMO Project contract from TIMAS in Indonesia, pursuant to which "Hilong 106", the offshore pipe-laying and derrick vessel, undertook work such as offshore pipeline laying, conduit rack, and the hoisting of upper modules for an offshore gas field development project at an oilfield in Southeast Asia. This was the first offshore pipe-laying and derrick operations contract secured by Hilong, as well as the first offshore engineering service contract awarded from overseas market. In mid-October, 2016, "Hilong 106" completed the project safely and smoothly, and was highly recognized by Indonesian State Oil and Natural Gas Mining Company (PERTAMINA) and the general contractor, TIMAS. This supplemented the offshore construction history of Hilong's offshore engineering, and laid a solid foundation for "Hilong 106" to undertake overseas projects in the future.

In 2016, Hilong successfully secured 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 2016, Hilong's offshore engineering design service team successfully secured a part of the subcontracting design service for Sinopec Shanghai Offshore Petroleum Bureau's project at the North Sea in the United Kingdom and the CPOE Zhoushan water pump installation and design contract.

In 2016, with an aim to expand its business scope and by relying on the design and management capabilities of its professional project management team, Hilong, in addition to its offshore pipeline laying and derrick business, successfully secured the offshore transportation turnkey contract of the Large Steel Cylinder (Experimental Stage) Project of the New Sanya Airport (三亞新機場大型鋼筒(試驗段)項目). This laid a sound foundation for further securing the transportation and installation contract of the steel cylinder piling of the New Sanya Airport (三亞新機場鋼筒沉樁運輸與安裝合同).

PROSPECTS

Looking forward to 2017, with the recovery of the oil and gas industry, and the increase in global capital expenditure, the supply and demand of the oil market is expected to return to its balance. Despite facing several market challenges, various business segments of the Company have already shown a strong rebound trend in the fourth quarter. In the past few years, Hilong has actively explored the path for reform and development, and has built a diversified business portfolio through restructuring its existing businesses and venturing into new businesses. In the future, Hilong will continue to focus on specialized operations while improving its profitability and capability against risks through maintaining an adequately 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

The oilfield services segment will keep up the momentum of steady development. The sustained and stable operation of the existing drilling rig fleet has always been the core concept in maintaining the steady operation of the entire segment. The Company will maintain smooth communications with its existing customers and improve the operational efficiency on the basis of ensuring the smooth continuation of contracts. The new drilling rig activated in the Albanian market by the Company in the first half of 2016 has already successfully commenced drilling services. At the same time, the drilling rig moved from Ecuador to Pakistan has also officially commenced services in 2016 and will contribute to the revenue for the full year in 2017. All these rigs will lay a foundation for the sustainable growth of the drilling services for the next few years. In addition, Hilong will continue to pursue new opportunities in the market, including developing new regional markets and enlarging new customers base. Currently, Hilong is focusing on the business deployment in the Middle East, with regions like Iraq and Abu Dhabi, etc. as the key target markets, and proactively participating in project biddings in those regions. In addition, the Company will strive to cooperate with weighty resources subcontractors, such as Weatherford Energy Services Co., Ltd. and China Oilfield Services Limited etc.; actively explore and study markets including Russia, Algeria, and the Sultanate of Oman, conduct qualification review and bidding, and identify new growth drivers for its drilling services, which is one of Hilong's traditional businesses with strong advantages. In the meantime, the Company is dedicated to improving its capability in providing integrated oilfield services, and will further focus on fostering the development of comprehensive services business. Currently, Hilong's comprehensive services have achieved initial results and secured several sizeable contracts in both domestic and overseas markets. Hilong will make every effort to ensure the successful execution of these projects in 2017 in order to establish a solid track record and sound reputation in the industry, laying the foundation for market expansion in the future.

Oilfield Equipment Manufacturing and Services

Hilong's drill pipe business has gained great recognition in the international market through precise strategic layout and years of incubation. The rapid expansion of the business in Russia has further proved the influence of Hilong in the international market. Nevertheless, Hilong's drill pipe business is highly reputed in China, but its global market share as a whole is still relatively limited. Looking forward to 2017, with the increasing stabilisation of international oil prices, the prospects of the domestic and overseas oil and gas industry is becoming promising. The business of drill pipe and related products, as one of Hilong's traditional cornerstone businesses, has also shown signs of strong rebound. Due to the rapid growth of orders in Russia, the Company planned to relocate the second production line from Middle East to Russia in the second half of 2017 to expand its capacity in order to support the local production. In addition, Hilong also entered into a contract with Eriell Group International Limited in February 2017 to become its sole supplier of drill pipes in its joint project with Uzbekistan's State Oil and Gas Company in Uzbekistan. This indicates that the drill pipes of Hilong are recognised and well received in the Commonwealth of Independent States other than Russia. It has laid a solid foundation for Hilong to further expand to overseas markets.

Besides, the Company will increase its effort in promoting the overseas sales of high value-added non-API drill pipes and related services to enhance the recognition of Hilong among the international customer base. On the other hand, Hilong will promote the drill pipe leasing business in North America through providing customized services to customers, enhancing the customer experience, consolidating customer relationships and promoting new products.

The OCTG coating services business is expected to recover slowly. This business is one of Hilong's traditional superior businesses with the most remarkable profitability. In recent years, Hilong has deployed new production capacity, or upgraded or improved the existing production facilities for this business in key strategic locations both domestically and internationally in a planned manner. In 2017, the Company is planning to establish another coating plant in Surgutsky District, Russia, which is expected to commence productions in the second half of the year. At present, Hilong is fully equipped with the capability of spray coating for all series of OCTG pipes and various types of new pipes. This significantly expands the business scope of Hilong's OCTG coating services, effectively enhances the production efficiency, and fully prepares Hilong, both in respect of technologies and production capability, to seize the growing market demand for high-end coatings for tubings and casings and other new types of pipes. Hilong will continue to focus on market research and development, and actively nurture new market demands to utilize and release the production capacity in the best way and to achieve steady growth during the new development stage.

Line Pipe Technology and Services

Looking forward to 2017, as the global oil and gas market is recovering, major oil and gas pipeline construction projects, both domestic and overseas, are also expected to launch gradually or resume normal construction. Hilong's line pipe coating services business will also embrace new development opportunities. Hilong has been providing coating services for a number of overseas pipeline construction projects in recent years, through which we have accumulated extensive experiences and established a good reputation among international customers, and our qualification and capability are widely accepted. Apart from continuing to actively take part in major domestic projects and solidify the good cooperation with its existing domestic customers, Hilong will continue to increase its efforts to explore overseas markets. For example, for anti-corrosion, we will continue to closely cooperate with High

Sealed & Coupled Seamless Steel Pipe Company Limited (HSC) in Algeria. For tubular, Hilong will continue to promote its development in the Pakistan and Russia markets. For offshore concrete weighted, we will seek opportunities to participate in major international line pipe projects and build up a track record. The Company will also accelerate the development of its pipeline inspection business to further explore the market and strengthen the market position. In terms of cooperation within the industry, Hilong will further develop the level of cooperation and the scope of cooperation with CNPC, Sinopec and CNOOC. These initiatives will help Hilong extend and improve the line pipe services industry chain, thereby achieving the goal of growing into a one-stop line pipe solution provider as soon as possible.

Offshore Engineering Services

In 2016, the work volume was insufficient due to the weakening of the offshore engineering industry as a whole. However, Hilong had actively expanded to overseas markets and completed the contract with TIMAS in Indonesia in the second half of 2016. In 2017, "Hilong 106" will continue to cooperate with TIMAS to install conduit racks for Husky Project. In the meantime, our offshore engineering fleet is also actively following up on potential customers and orders in multiple Southeast Asia markets. Other than the traditional offshore oil and gas development industry, it also considers the offshore wind power installation, sewage pipeline construction in coastal cities, water and gas supply pipeline construction, and dock and bridge construction as a major component of Hilong's offshore engineering business development. We see the establishment of a "comprehensive services platform" as our vision, and we will undertake various offshore installation services contracts in all aspects as a general contractor. In 2018, "Hilong 106" is going to cooperate with Saipem, a renowned international EPCI contractor, to install offshore well-shaft platforms and lay offshore pipelines for the BP Tangguh project. The project will help Hilong build extensive experience and reputation. At the same time, the ability to secure the project in the current challenging market has further proved the competitiveness of Hilong's offshore engineering fleet. The pace of development for the offshore engineering design services 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 including offshore engineering design and construction, to jointly promote the development of new technologies, 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 high-end domestic customers, and achieve a solid track record in the domestic market. Meanwhile, Hilong continues to actively seek to establish exchanges and cooperation with leading international enterprises in the area of offshore engineering services in order to lay a foundation to tap into a broader international market.

We strongly believe that, with our perseverance and efforts, Hilong will continue to create stable return to our shareholders.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash from operating activities	**139,322**	484,774
Net cash used in investing activities	**(94,515)**	(235,795)
Net cash from/(used in) financing activities	**(203,060)**	12,791
Net increase/(decrease) in cash and cash equivalents	**(158,253)**	261,770
Exchange gains/(losses) on cash and cash equivalents	**(5,689)**	11,537
Cash and cash equivalents at beginning of the year	**821,364**	548,057
Cash and cash equivalents at end of the year	**657,422**	821,364

As at 31 December 2016, cash and cash equivalents are mainly denominated in RMB, USD, RUB, NGN, PKR and CAD.

Operating Activities

Net cash from operating activities in 2016 was RMB139.3 million, representing cash generated from operations of RMB321.2 million, partially offset by the interest payment of RMB140.5 million and income tax payment of RMB47.4 million.

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

Investing Activities

Net cash used in investing activities in 2016 was RMB94.5 million, primarily reflecting the payment of RMB133.8 million for purchases of property, plant and equipment, partially offset by proceeds of RMB37.8 million from disposal of property, plant and equipment.

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

Financing Activities

Net cash used in financing activities in 2016 was RMB197.1 million, primarily reflecting (i) repayment of borrowings of RMB1,601.9 million, (ii) payment as security deposit for bank borrowings of RMB70.5 million and (iii) dividends payment of RMB29.0 million, offset by proceeds of RMB1,512.6 million from borrowings.

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

Capital Expenditures

Capital expenditures were RMB306.5 million and RMB269.3 million in 2015 and 2016 respectively. The decrease in capital expenditures for 2016 was mainly due to the Group's implementation of capital expenditures saving policy and achieved favourable results.

Indebtedness

As at 31 December 2016, the outstanding indebtedness of RMB2,748.1 million was mainly denominated in USD, RMB and HKD. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – unsecured	**1,703,570**	2,156,532
Bank borrowings – secured	**–**	–
Less: Current portion of non-current borrowings	**(386,159)**	(1,072,068)
	1,317,411	1,084,464
Current		
Bank borrowings – secured	**512,223**	50,377
Bank borrowings – unsecured	**532,296**	470,003
Current portion of non-current borrowing	**386,159**	1,072,068
	1,430,678	1,592,448
	2,748,089	2,676,912

As at 31 December 2016, borrowings of RMB788,655,000 were obtained at fixed rates (31 December 2015: RMB406,159,000).

The bank borrowings of RMB168,867,000 (31 December 2015: RMB50,377,000) were secured by bank deposits of RMB103,044,000 of the Group as at 31 December 2016 (31 December 2015: RMB32,544,000).

The bank borrowings of RMB11,191,000 (31 December 2015: Nil) were secured by commercial acceptance bills of the Group as at 31 December 2016.

As at 31 December 2016, there were bank borrowings of RMB20,000,000 (31 December 2015: Nil) were borrowed by Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., a subsidiary of the Group, which was secured by the non-controlling interest of the Group.

In September 2016, the Company entered into USD loan agreements with financial institutions amounted to USD45,000,000. These loan principals were secured by the ultimate Controlling Shareholder of the Group and Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd., one of the related parties of the Group.

Gearing Ratio

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

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

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Total borrowings	**2,748,089**	2,676,912
Less: Cash and cash equivalents	**(657,422)**	(821,364)
Net debt	**2,090,667**	1,855,548
Total equity	**3,491,878**	3,256,136
Total capital	**5,582,545**	5,111,684
Gearing ratio	**37.45%**	36.30%

Foreign Exchange

The Group mainly operates in the PRC, and also has network in various countries and regions around the world. The Group is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to USD. Foreign exchange risk arises from recognizing assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 16.2% appreciation of RMB against the USD from 21 July 2005 to 31 December 2016. There remains significant pressure on the PRC government to adopt a more flexible currency policy, which could result in a 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 natural hedging by actively matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 55.8% and 42.1% of the total revenue of the Group in 2015 and 2016, respectively.

Staff and Remuneration Policy

As at 31 December 2016, the total number of full-time employees employed by the Group was 2,608 (31 December 2015: 2,632). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2016:

On-site workers	1,554
Administrative	478
Research and development	132
Engineering and technical support	269
Company management	41
Sales, marketing and after-sales services	134
	2,608

Employee costs excluding Directors' remuneration totalled RMB395,964,000 for 2016.

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

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

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

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the year ended 31 December 2016, except that in respect of code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Mr. ZHANG Jun. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company.

Model Code for Securities Transactions by Directors

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 of all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company, consisting of Mr. LEE Siang Chin, Mr. WANG Tao (王濤) and Ms. ZHANG Shuman, has reviewed the annual results for the year ended 31 December 2016 before the results were submitted to the Board for approval.

The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2016 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the year ended 31 December 2016.

DIVIDENDS

The Board resolved to recommend the payment of a final dividend of HK1.0 cent per share (2015: HK2.0 cents per share), amounting to approximately HK$17.0 million (equivalent to approximately RMB15.2 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2016, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "**AGM**"). Upon approval of the shareholders at the AGM, the proposed final dividend will be paid on Tuesday, 11 July 2017 to the shareholders of the Company whose names appear on the register of members of the Company as at Thursday, 29 June 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 19 June 2017 to Friday, 23 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 16 June 2017.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 29 June 2017 to Monday, 3 July 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 28 June 2017.

PUBLICATION OF ANNUAL RESULTS

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

The annual report for the year ended 31 December 2016 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and become available on the same websites in due course.

APPRECIATION

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

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

24 March 2017

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