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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Zhang Shuman (張姝嫻)
Dr. Yang Qingli (楊慶理)
Mr. Cao Hongbo (曹宏博)
Dr. Fan Ren Da Anthony (范仁達)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Shi Zheyang (施哲彥)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Sham Ying Man (岑影文)

AUDIT COMMITTEE

Mr. Wong Man Chung Francis (黃文宗)
(Chairman of Audit Committee)
Mr. Wang Tao (王濤)
Ms. Zhang Shuman (張姝嫻)

REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Remuneration Committee)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Shi Zheyang (施哲彥)

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Shi Zheyang (施哲彥)

COMPANY SECRETARY

Ms. Sham Ying Man (岑影文)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

REGISTERED OFFICE

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HEADQUARTER

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East, Wan Chai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch
Shanghai Pudong Development Bank, Baoshan Branch

STOCK CODE

1623

WEBSITE

www.hilonggroup.com

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2022		2021	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	789,659	46.4	423,544	27.0
– Oil country tubular goods (“OCTG”) coating services	142,724	8.4	136,959	8.7
– Drill pipe components	10,192	0.6	19,560	1.2
– Hardbanding	15,819	0.9	16,215	1.0
– Others	44,742	2.6	63,081	4.0
Subtotal	1,003,136	58.9	659,359	41.9
Line pipe technology and services				
– OCTG coating materials	4,984	0.3	5,129	0.3
– Oil and gas line pipe coating materials	649	–	1,294	0.1
– Oil and gas line pipe coating services	60,913	3.6	76,749	4.9
– Corrosion Resistant Alloy (“CRA”) lined pipe	211	–	2,853	0.2
– Concrete Weighted Coating (“CWC”) services	90,389	5.3	17,277	1.1
– Pipeline inspection services	20,125	1.2	34,990	2.2
Subtotal	177,271	10.4	138,292	8.8
Oilfield services	458,544	26.9	434,124	27.7
Offshore engineering services	64,292	3.8	339,300	21.6
Total revenue	1,703,243	100.0	1,571,075	100.0

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

	Six months ended 30 June			
	2022		2021	
	RMB'000	%	RMB'000	%
Russia, Central Asia and Europe	485,181	28.5	344,387	21.9
Middle East	437,213	25.7	166,046	10.6
The PRC	288,764	17.0	489,998	31.2
North and South America	230,958	13.6	163,246	10.4
South Asia and Southeast Asia	154,136	9.0	322,521	20.5
Africa	106,991	6.2	76,423	4.9
Others	–	–	8,454	0.5
Total	1,703,243	100.0	1,571,075	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue increased by RMB132.1 million, or 8.4%, from RMB1,571.1 million for the six months ended 30 June 2021 to RMB1,703.2 million for the six months ended 30 June 2022 (the “Interim Period”). Such increase was mainly due to the increase in revenue from the oilfield equipment manufacturing and services segment and line pipe technology and services segment, partly offset by the 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 RMB343.7 million, or 52.1%, from RMB659.4 million for the six months ended 30 June 2021 to RMB1,003.1 million for the Interim Period. Such increase primarily reflected the increase in revenue derived from drill pipe sales.

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

	Six months ended 30 June	
	2022	2021
Sales of drill pipes		
– International market		
– volume (tonnes)	31,461	14,446
– unit price (RMB/tonne)	24,319	19,061
Subtotal (RMB'000)	765,116	275,360
– The PRC market		
– volume (tonnes)	1,434	9,273
– unit price (RMB/tonne)	17,118	15,980
Subtotal (RMB'000)	24,543	148,184
Total (RMB'000)	789,659	423,544

Revenue from sales of drill pipes in the international market increased by RMB489.7 million, or 177.8%, from RMB275.4 million for the six months ended 30 June 2021 to RMB765.1 million for the Interim Period. The increase primarily reflected an increase of 117.8% in the volume of drill pipes sold from 14,446 tonnes for the six months ended 30 June 2021 to 31,461 tonnes for the Interim Period and a 27.6% increase in average selling price sold in the international market from RMB19,061 per tonne for the six months ended 30 June 2021 to RMB24,319 per tonne for the Interim Period. The increase in the sales volume primarily reflected the large demands from the Middle East and Russian markets and the Company’s strategy to put more effort into long-term cooperation with prestigious customers in the international market.

Revenue from sales of drill pipes in the PRC market decreased by RMB123.7 million, or 83.5%, from RMB148.2 million for the six months ended 30 June 2021 to RMB24.5 million for the Interim Period. The decrease primarily reflected a 84.5% decrease in the volume of drill pipes sold in the PRC market, from 9,273 tonnes for the six months ended 30 June 2021 to 1,434 tonnes for the Interim Period, and to a lesser extent, a 7.1% increase in average selling price sold in the PRC market from RMB15,980 per tonne for the six months ended 30 June 2021 to RMB17,118 per tonne for the Interim Period. The decrease in the sales volume primarily reflected that the Company utilized part of domestic capacity to satisfy the requirement of high margin drill pipe’s orders in the international market. The increase in average selling price primarily reflected the guideline price of American Petroleum Institute (“API”) drill pipe products based on the annual bid of both CNPC and Sinopec Group increased in the Interim Period compared to that in the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from OCTG coating services increased by RMB5.7 million, or 4.2%, from RMB137.0 million for the six months ended 30 June 2021 to RMB142.7 million for the Interim Period. The increase was mainly due to the increased demands of OCTG coating services in the international market.

Line pipe technology and services. Revenue from line pipe technology and services segment increased by RMB39.0 million, or 28.2%, from RMB138.3 million for the six months ended 30 June 2021 to RMB177.3 million for the Interim Period. Such increase primarily reflected the increase in the revenue derived from CWC services. The increase in revenue derived from CWC services mainly reflected the Company's ability to undertake more projects and develop new customers.

Oilfield services. Revenue from the oilfield services segment increased by RMB24.4 million, or 5.6%, from RMB434.1 million for the six months ended 30 June 2021 to RMB458.5 million for the Interim Period. Such increase mainly reflected the increase in revenue from trade services and the recovery of the utilisation rate of drilling rigs for the Interim Period as compared to the six months ended 30 June 2021.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period mainly represented the revenue derived from the Bengal Project.

Cost of Sales/Services

Cost of sales/services increased by RMB97.3 million, or 8.5%, from RMB1,149.1 million for the six months ended 30 June 2021 to RMB1,246.4 million for the Interim Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB35.0 million, or 8.3%, from RMB421.9 million for the six months ended 30 June 2021 to RMB456.9 million for the Interim Period. Gross profit margin was 26.8% for the Interim Period, which remained consistent with that for the six months ended 30 June 2021.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB20.1 million, or 46.2%, from RMB43.5 million for the six months ended 30 June 2021 to RMB63.6 million for the Interim Period. These expenses, amounting to 3.7% of revenue for Interim Period, which are higher than the relevant ratio of 2.8% for the six months ended 30 June 2021.

Administrative Expenses

Administrative expenses decreased by RMB7.1 million, or 3.3%, from RMB217.0 million for the six months ended 30 June 2021 to RMB209.9 million for the Interim Period. Such decrease primarily reflected the decrease in consulting expenses.

Other Gain – Net

The Group recognized net gain of RMB221.9 million for the Interim Period and net gain of RMB55.0 million for the six months ended 30 June 2021. The net gain recognized for the Interim Period primarily reflected the exchange gain of RMB208.8 million from the operating activities as a combined result of the appreciation of the USD and the RUB and the proceeds of RMB4.2 million from disposal of property, plant and equipment. The net gain recognized for the six months ended 30 June 2021 primarily reflected the proceeds of RMB65.0 million from disposal of subsidiaries and the proceeds of RMB17.4 million from disposal of property, plant and equipment, partly offset by an exchange loss of RMB35.5 million from the operating activities as a combined result of the depreciation of the USD.

Finance Costs – Net

Finance costs – net increased by RMB144.4 million, or 102.0%, from RMB141.5 million for the six months ended 30 June 2021 to RMB285.9 million for the Interim Period. Such increase primarily reflected (i) an exchange loss of RMB124.0 million from the financing activities resulting from the appreciation of USD, while for the six months ended 30 June 2021 the exchange gain was RMB24.0 million; (ii) partly offset by that the interest expense from borrowings decreased from RMB166.3 million for the six months ended 30 June 2021 to RMB159.0 million for the Interim Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit before Income Tax

As a result of the foregoing, the Group recognized profit before income tax of RMB69.9 million for the Interim Period and profit before income tax of RMB75.6 million for the six months ended 30 June 2021.

Income Tax Expense

The Group recognized income tax expense of RMB33.3 million for the six months ended 30 June 2021 and RMB13.9 million for the Interim Period. Effective tax rate was approximately 44.0% for the six months ended 30 June 2021 and 19.9% for the Interim Period. The decrease of effective tax rate mainly reflected the increase of deferred income tax.

Profit for the period attributable to equity owners of the Company

As a result of the foregoing, the Group recognized profit for the period attributable to equity owners of the Company of RMB54.1 million for the Interim Period and profit for the period attributable to equity owners of the Company of RMB40.2 million for the six months ended 30 June 2021.

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 periods indicated:

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Inventory	1,416,363	1,050,881
Turnover days of inventory (in days) ⁽¹⁾	179	186

⁽¹⁾ Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 181 for the Interim Period and by 365 for the year ended 31 December 2021. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase of inventories from 31 December 2021 to 30 June 2022 reflected the increase of reserves for new orders in overseas market.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and Other Receivables

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

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Trade receivables		
– Due from third parties	1,934,576	1,515,489
– Due from related parties	16,160	10,512
– Less: Provision for impairment of receivables	<u>(171,272)</u>	<u>(129,166)</u>
Trade receivables – net	1,779,464	1,396,835
Other receivables		
– Due from third parties	186,985	140,432
– Due from related parties	<u>123,399</u>	<u>123,532</u>
Other receivables	310,384	263,964
Dividend receivables	<u>2,746</u>	<u>2,746</u>
Total	<u>2,092,594</u>	<u>1,663,545</u>

The trade receivables of RMB17,286,000 (31 December 2021: RMB1,694,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Trade receivables, net		
– Within 90 days	1,034,730	702,057
– Over 90 days and within 180 days	256,874	211,797
– Over 180 days and within 360 days	251,817	157,964
– Over 360 days and within 720 days	153,162	163,462
– Over 720 days	82,881	161,555
	<u>1,779,464</u>	<u>1,396,835</u>
Turnover days of trade receivables, net ⁽¹⁾	<u>169</u>	<u>178</u>

⁽¹⁾ Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2021. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The decrease in turnover days of trade receivables from 178 days as at 31 December 2021 to 169 days as at 30 June 2022 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was more active and accelerated in the Interim Period.

Movements in provision for loss allowance of trade receivables are as follows:

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
As at 1 January	129,166	204,516
Provision for receivables loss allowance	42,917	29,162
Reversal of loss allowance	–	(4,000)
Write-off of loss allowance	(811)	(26,191)
As at 30 June	<u>171,272</u>	<u>203,487</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and Other Payables

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

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Bills payable	5,868	8,426
Trade payables		
– Due to related parties	19,470	19,664
– Due to third parties	609,025	435,402
Other payables		
– Due to related parties	12,674	9,017
– Due to third parties	84,233	60,423
Staff salaries and welfare payables	36,324	33,680
Interest payables	35,806	35,067
Accrued taxes other than income tax	115,752	116,293
Dividends payable	10,496	10,496
Other liabilities	12,280	7,880
	<u>941,928</u>	<u>736,348</u>

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

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Trade payables, gross		
– Within 90 days	349,176	282,231
– Over 90 days and within 180 days	268,564	164,173
– Over 180 days and within 360 days	4,804	2,110
– Over 360 days and within 720 days	2,246	3,210
– Over 720 days	3,705	3,342
	<u>628,495</u>	<u>455,066</u>
Turnover days of trade payables ⁽¹⁾	<u>79</u>	<u>81</u>

⁽¹⁾ Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2021. Average trade payables equals to balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Net cash (used in)/generated from operating activities	(5,846)	293,932
Net cash (used in)/generated from investing activities	(48,831)	86,543
Net cash used in financing activities	(76,256)	(271,583)
Net (decrease)/increase in cash and cash equivalents	(130,933)	108,892
Exchange gains/(losses) on cash and cash equivalents	21,131	(2,998)
Cash and cash equivalents at beginning of the period	628,805	697,463
Cash and cash equivalents at end of the period	519,003	803,357

As at 30 June 2022, cash and cash equivalents were mainly denominated in RMB, USD, RUB, CAD and PKR.

Operating Activities

Net cash used in operating activities for the Interim Period was RMB5.8 million, representing cash generated from operation of RMB48.0 million, offsetting by the income tax payment of RMB53.8 million, primarily reflecting the increase of inventory procurement for orders in the latter half of the year.

Net cash generated from operating activities for the six months ended 30 June 2021 was RMB293.9 million, representing cash generated from operation of RMB313.8 million, offsetting by the income tax payment of RMB19.9 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB48.8 million, primarily reflecting payment of RMB58.8 million for purchases of property, plant and equipment, partially offset by proceeds of RMB10.5 million from disposal of property, plant and equipment.

Net cash generated from investing activities for the six months ended 30 June 2021 was RMB86.5 million, primarily reflecting (i) proceeds of RMB106.5 million from disposal of subsidiaries; and (ii) net cash inflow arising from financial instruments of RMB23.0 million, partially offset by payment of RMB51.5 million for purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities for the Interim Period was RMB76.3 million, primarily reflecting (i) the repayment of borrowings of RMB384.3 million, (ii) interest payment of RMB137.1 million, and (iii) net cash outflow arising from security deposit for bank borrowings of RMB7.2 million, partly offset by proceeds of borrowings of RMB455.9 million.

Net cash used in financing activities for the six months ended 30 June 2021 was RMB271.6 million, primarily reflecting (i) the repayment of borrowings of RMB438.5 million, (ii) interest payment of RMB277.6 million, and (iii) principal element of lease payments of RMB18.5 million, partly offset by proceeds of borrowings of RMB477.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURES

Capital expenditures were RMB70.2 million and RMB58.9 million for the six months ended 30 June 2021 and the Interim Period, respectively. The decrease in capital expenditures for the Interim Period was mainly due to the decrease in maintenance expenditures in the oilfield services segment, partly offset by the increase in maintenance capital expenditures of Hilong 106 vessel.

INDEBTEDNESS

As at 30 June 2022, the outstanding indebtedness of RMB3,187.1 million was mainly denominated in USD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Non-current		
Bank borrowings – secured	199,051	162,162
2024 Notes – secured	2,491,346	2,347,987
Less: Current portion of non-current borrowings – secured	<u>(40,082)</u>	<u>(77,640)</u>
	<u>2,650,315</u>	<u>2,432,509</u>
Current		
Bank borrowings – secured	496,735	529,712
Current portion of non-current borrowings – secured	<u>40,082</u>	<u>77,640</u>
	<u>536,817</u>	<u>607,352</u>
	<u>3,187,132</u>	<u>3,039,861</u>

As at 30 June 2022, bank borrowings of RMB3,075.6 million were obtained at fixed rate (31 December 2021: RMB2,917.5 million).

The bank borrowings of RMB35.7 million (31 December 2021: RMB13.5 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB11.2 million as at 30 June 2022 (31 December 2021: RMB4.1 million).

The borrowings of RMB24,633,000 (31 December 2021: RMB30,704,000) from financial institution were secured by trade receivables of RMB17,286,000 (31 December 2021: RMB1,694,000) of the Group as at 30 June 2022.

The bank borrowings of RMB37,694,000 (31 December 2021: RMB104,784,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 30 June 2022.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation (“SINO SURE”, a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2022, USD33,545,000 were drawn down, out of which USD16,920,000 had been repaid in past years and the six months ended 30 June 2022. The remaining principal balance will be fully repayable from 2022 to 2025.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF AND REMUNERATION POLICY

As at 30 June 2022, the total number of full-time employees employed by the Group was 3,186 (31 December 2021: 2,920). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2022:

On-site workers	2,032
Administrative	447
Engineering and technical support	468
Research and development	119
Sales, marketing and after-sales services	90
Company management	30
	<hr/>
	3,186

Employee costs excluding the Directors' remuneration totalled RMB318.4 million for the Interim Period.

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

The Company 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 interim report, none of the share options granted has been exercised.

BUSINESS REVIEW

In 2022, international crude oil price remained high, and capital expenditure within the oil and gas industry increased significantly, resulting in increased workload and orders. Under such opportunity, the Company actively expanded in both international and domestic markets, and adopted refined management measures throughout the Group. The Company's overall operations in the first half of 2022 remained stable and achieved improvements in its business performance. During the Interim Period, the Company recorded a total revenue of RMB1,703 million, representing an increase of 8% compared with the first half of 2021, or an increase of 27% compared with the second half of 2021. Supported by the gradual increase in orders, the revenue from the three segments namely oilfield equipment manufacturing and services, oilfield services and line pipe technology and services increased in varying degrees.

In April and May 2022, under the new wave of COVID-19 outbreak, a full-scale lockdown was implemented in Shanghai, which posed immense challenges to the production and operation of Hilong. Under such adversity, the Company surmounted difficulties and responded actively by putting together a plan for pandemic control and prevention before the early April lockdown started, under which hundreds of our frontline workers and management staff members were stationed at our plants during the lockdown, so that our production and operation did not suspend even during the full-scale lockdown in Shanghai. Such incident, which lasted for two months, resulted in an increase in our costs, especially transportation costs to a large extent, which in turn hampered the profitability of the Company for the first half of the year. Through reasonable arrangements, planning and the concerted efforts of all staff members who were stationed at our plants, during the lockdown period, we prioritized and completed the production orders where delivery time was tight and more urgent, ensuring the timely delivery for such orders. For other orders where delivery time is not of the essence, production was arranged to start after the end of the lockdown, resulting in late delivery of some stocks. Meanwhile, for the sake of prudence, some additional stocks were prepared in advance to cope with any emergency such as lockdown, leading to the temporary increase in inventory as at the end of the Interim Period and caused negative effect to the operating cash flow during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

After the lockdown in Shanghai was fully lifted in early June, factors such as the pandemic lockdown hardly affected the Company anymore. While vigorously exploring the market and actively striving for orders, the Company adopted measures to reduce cost and increase efficiency. The Company also strengthened its cash flow management, took active accounts receivable and inventory management measures, so that in the second half of the year it can cover the cash flow targets which were not completed in the first half of the year. During the Interim Period, the Company secured a number of important orders, establishing a sound foundation for its highly efficient development going forward.

Oilfield Equipment Manufacturing and Services

During the Interim Period, the revenue of the oilfield equipment manufacturing and services segment was RMB1,003 million, representing a 52% growth compared with the first half of 2021. Affected by factors such as high oil prices, the global oil and gas drilling activities gradually resumed, and the demand for oilfield equipment within the industry increased significantly. Production volumes increased in both the Company's drill pipe and OCTG coating businesses from the corresponding period in 2021. Drill pipe products, especially heavy weight drill pipes, reported substantial increase in sales from the corresponding period in 2021. The sales volume for various segments of OCTG coating business increased substantially from the corresponding period last year, including tubing and casing coating, drill pipe coating, line pipe coating and other pipe accessory coating. Over the years, Hilong's drill pipe and OCTG coating businesses have focused on providing customized high-end products and services and have always adhered to the development strategy with quality and continuous technological innovation as the core driving force. While exploring the high-end market and ensuring the quality of products and services, the Company will also adapt to the market and actively explore new business areas so as to meet the needs of different customers, such as applying OCTG coatings to ground gathering pipelines, special-shaped pipe accessories, large-diameter pipes and so forth. Such efforts have been recognized by customers in some markets.

In late March 2022, the Canadian International Trade Tribunal and the Canada Border Services Agency initiated litigations with respect to damages and investigations into the anti-dumping and anti-subsidizing of drill pipes and heavy weight drill pipes exported from China to Canada. As the only drill pipe enterprise respondent from China, we strenuously defended the sophistication of our technologies and competitiveness in the international market, and received favorable preliminary rulings. This ruling will solidify our brand image in the international markets, particularly in North America. During the Interim Period, Hilong signed a series of contracts with Ensign US Southern Drilling LLC, Weatherford Industria e Comercio Ltda., Ventura Petroleo S.A., XTO Energy Inc. and ConocoPhillips in respect of drill pipes and coating services. In particular, the contract of coating services signed with ConocoPhillips signified Hilong's first cooperation with another high-end large-scale petroleum company in the United States. Further, the Company proceeded with the project execution for the contract signed with ADNOC, a company based in United Arab Emirates, regarding sour service drill pipes; and achieved breakthrough in securing business regarding the use of Hilong V150 drill pipes for deepwater oil drilling in Brazil for the first time. Signing these contracts and executing these projects not only marked a new breakthrough in the expansion of Hilong's coating business in the markets of South America and North America and the Middle East and further consolidated the penetration of Hilong's coating and drill pipe business in the international market, but also illustrated the industry's persistent high recognition of Hilong's capability in coating services and drill pipe production, laying a solid foundation for Hilong's expansion in the international market going forward.

MANAGEMENT DISCUSSION AND ANALYSIS

Oilfield Services

During the Interim Period, the oilfield services segment recorded a total revenue of RMB459 million, representing a 6% growth compared with the corresponding period in 2021. The upward trend of oil price drove the capital expenditure invested by enterprises engaged in oilfields and gas fields. The oil service industry is anticipated to undergo a new booming cycle. Capitalizing on favorable conditions including the increase in capital expenditure at the upstream of the industry, Hilong penetrated into the overseas oil services market. Since the beginning of the year, by means of coordinating different business units in drilling and workover services, technical services and trade services, the Company strengthened market development and fully displayed the synergistic effects among these business segments, ensuring the stable growth of the segment as a whole. With the efforts of Hilong's drilling and workover service team, the utilization rate of our drilling and workover rigs as well as the inter well relocation and installation speed of the Company was significantly higher than that of 2021 as a whole. New contracts have been secured for fleets under long-term standby including HL-30 fleet, HL-22, HL-17 and HL-12 fleet; contracts have been renewed or extended for other drilling rigs in operation; while active efforts were made to expand turnkey drilling projects. During the Interim Period, the comprehensive operation performance and project management level of Hilong's multiple drilling and workover service teams were well approved of by the customers on a continuous basis. For example, for the SRNW-8 well drilled by HL59, the operation cycle was ahead of the pre-designed schedule by a few days, representing a new record for the zone and winning recognition and cash rewards from customers. QHSE (Quality, Health, Safety, Environment) management level and performance also continued to improve, achieving zero safety incident and environmental pollution incident during the Interim Period. The technical service team has successfully operated many businesses, including rock fragments processing service, managed pressure drilling (MPD) technology, directional and horizontal well drilling and other comprehensive technical services, and will further develop more diversified businesses including well completion and production increase, drilling speed and efficiency improvement, oilfield environmental protection, rotary steering technology. In terms of trade service business, the amount of new contracts signed within the year was significantly higher than that in the corresponding period last year, securing sufficient projects during the first half of the year. Furthermore, Hilong also completed the qualification certification of a number of sizable international customers, getting well-prepared for exploring new market opportunities.

Line Pipe Technology and Services

During the Interim Period, the line pipe technology and services segment recorded a total revenue of RMB177 million, representing a 28% growth from the first half of 2021. The Company firmly captured its core customers in the line pipe coating and concrete-weighted coating business, and obtained a number of major projects from sizable customers during the Interim Period. The number of new contracts signed during the Interim Period was significantly higher than that in the corresponding period in 2021, and we currently have sufficient orders on hand. The Company will also continue to explore the domestic and international markets to strive for new customers and orders, and continue to expand the market share in the line pipe coating and concrete-weighted coating business. The pipeline inspection services continued to develop rapidly. The Company signed multiple contracts in the domestic market and actively promoted the layout of overseas business. During the Interim Period, with its expertise in technology solutions, Hilong distinguished itself among other industry players and won the bid for the water cycle testing platform project of Shandong Special Equipment Testing Institute Group Company Limited (山東省特種設備檢驗研究院集團有限公司). The project represents the Company's first participation in projects of designing sizable water cycle testing platform in China, marking a breakthrough of its technical service business in the domestic market.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

In the second half of 2022, in terms of the international market, oil prices are expected to remain at a high level as the demand for crude oil will continue to grow, which is bound to drive the continued recovery of the global oil industry. Since 2014, the oil and gas market has entered a downward cycle. Over the years, capital expenditures in the industry remained low, resulting in insufficient oil and gas supply. In 2020, crude oil was still in the downward cycle and upstream enterprises lacked momentum to increase production. However, with the recovery of oil prices in the past two years, upstream enterprises in the industry tended to increase capital investment to expand and increase production on the premise of ensuring profits. Driven by high oil prices, the oil and gas industry has ushered in a major recovery in profits. In general, companies in the industry seized this opportunity to implement their plans to increase reserves and production as soon as possible. Hilong also took this opportunity to increase its market development efforts and international market share. It has secured a relatively satisfactory number of orders, and the workload is expected to be sufficient in the second half of the year. In the domestic market, as China has entered the fourth year in implementing the seven-year action plan for oil and gas industry which spans from 2019 to 2025, domestic crude oil production has become stable and natural gas production continued to increase rapidly. The convening of the “Conference on Promoting the Enhancement of Oil and Gas Exploration and Development” (大力提升油氣勘探開發力度工作推進會) in 2021 reflects the government’s determination to increase oil and gas exploration, development and investment, indicating that oil and gas exploration and development activities in China will continue to be active. Furthermore, China’s goals of “striving to achieve carbon peak by 2030 and carbon neutrality by 2060” (力爭二零三零年實現碳達峰、二零六零年實現碳中和) will also be a driving force for the further development of local natural gas in the domestic oil and gas industry. In summary, the domestic and international oil and gas industry markets are promising and the growth in demand is driving the industry into a new booming cycle. Hilong will fully grasp the market opportunities brought by the new booming cycle of the industry.

In terms of the international drill pipe market, the Company is positioned to enhance its brand image and deeply develop high-end markets in the Middle East/America to continuously increase its market share of high-end products by making full use of its drill pipe production capacity. At the same time, the Company will also increase the research and development of high-end drill pipe products such as special buckles, high-strength sour service drill pipes and titanium alloy drill pipes as well as the management system of drill pipes with radio frequency identification tags and intelligent drill pipes. Currently, we are actively preparing to obtain the certification of the (except special buckle) coating/hydrogen sulfide-resistant drill pipe materials for Saudi Aramco and KOC (Kuwait Oil Company) certification in the Middle Eastern market, which will lay a foundation for further development in the future. For the domestic drill pipe market, Hilong will adopt differentiated marketing strategies for different customers, while focusing on the development and promotion of high-end special buckle drilling tools for unconventional oil and gas resource extraction.

For the OCTG coating business, the Company has benefited from the current beneficial environment in overseas markets. With sufficient number of orders in the North American market, the overall production efficiency and operation level of the factories will be improved and the production capacity will be fully expanded to meet the demand from these orders. We will continue to promote localized production and application of coating materials in Russia and its nearby markets. In the Middle Eastern market, we will strive to achieve breakthroughs in the business scale of the line pipe coating and large-diameter non-standard pipe accessory coating in addition to maintaining the production and operation and stable growth of well-established products. Domestically in China, the Company will reduce costs and increase efficiency by enhancing the operation and management in all aspects of all coating factories. We will increase our market development efforts to deeply cultivate the traditional drilling tool coating and tubing and casing coating markets while seeking growth opportunities for differentiated demand for anti-scaling and anti-wax coatings, ground line pipe coatings and high temperature resistant coatings in different regional markets. The Company will also strive to increase coating sales in the domestic market in the future to gradually form a market scale of differentiated products such as ground line pipes, high temperature resistant, anti-scaling and anti-wax coatings.

MANAGEMENT DISCUSSION AND ANALYSIS

Regarding the oil services business, Hilong will fully utilize existing business opportunities and facilitate the signing and execution of new contracts for well drilling and workover markets of Nigeria and Ecuador. In Iraq, we will actively secure new turnkey drilling contract, and in the Middle East and Africa, we will continue to expand into new markets, reach new customers and make new progress while making every effort to increase the utilization rate of existing drilling and workover rigs. The Company will prepare the registration of a branch in Libya, select cooperation partners and fully conduct market research as soon as possible. In terms of technical service business, on the basis of consolidating the existing business, we will actively promote the resumption of production of old wells and fully promote the nanofluids flooding technology in striving to achieve new breakthroughs in the operation. For trading services, we will fully implement our existing projects and orders to ensure satisfaction of our customers in order to lay a solid foundation for the subsequent projects of our key customers, and seek joint operation with other business to support drilling and workover services, technical services as well as external cooperation to further consolidate customer relationships and achieve further business breakthroughs.

For the line pipe technology and service segment, owing to sufficient number of orders, we will make every effort to organize production and continue to focus on exploring market opportunities brought by the new peak of domestic oil and gas line pipe network construction and developing overseas projects. We will not only consolidate domestic pipeline inspection services but also actively seek business opportunities for oil and gas pipeline inspection services in the United Arab Emirates, Saudi Arabia and Iraq. Moving forward, we intend to increase the Company's market share in inspection services through various business optimization endeavors. In terms of information technology business, the Company will focus on the development of three major technology products, namely industrial intelligent sensors, industrial special robots and industrial Internet platforms, and strive to become a leader in industrial Internet technologies, products and solutions in the oil and gas chemical industry in the future.

The focus of the offshore engineering services segment in the second half of the year is to implement existing projects and to execute the newly signed projects. The offshore engineering services segment has formed active and effective cooperation with CNOOC Limited (“CNOOC”), a domestic core customer. In the future, we will further maintain the relationship with customers within the CNOOC system and fully grasp the potential market opportunities contained in CNOOC's “Seven-Year Action Plan” (七年行動方案). Against the backdrop of the ongoing recovery of the global oil and gas industry, the Company will also actively expand customers outside the CNOOC system, focus on new energy businesses such as offshore wind power, consolidate the Southeast Asian market and pay attention to project opportunities in the Middle East and other regions. Meanwhile, Hilong will increase its efforts in talent acquisition, adhere to innovation-driven development and international expansion, and enhance its capabilities in operation, project execution and technology-driven development with a goal to become a technology management company that excels in the design aspect of EPCI (Engineering, Procurement, Construction and Installation) general contracting capacity. During the Interim Period, Hilong signed an annual agreement with Tianjin Saipan Offshore Engineering Technology Co., Ltd. (天津塞班海洋工程技術有限公司) to provide it with design and technical services for offshore platforms and other oil and gas development projects for a term of three years. This project is the first technical service agreement of the Company, which will lay a solid foundation for us to make Hilong Marine Engineering (Hong Kong) Limited an excellent EPCI contractor for offshore petroleum engineering.

EVENTS AFTER THE END OF THE INTERIM PERIOD

There were no important events affecting the Company nor any of its subsidiaries since the end of the Interim Period and up to the date of this interim report.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2022

	Note	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,484,227	2,381,624
Right-of-use assets	7	47,682	51,223
Intangible assets	7	231,344	210,219
Investments accounted for using equity method		86,503	93,231
Deferred income tax assets		183,351	158,224
Other long-term assets		71,616	50,778
Total non-current assets		3,104,723	2,945,299
Current assets			
Inventories		1,416,363	1,050,881
Contract assets		179,576	131,063
Financial assets at fair value through other comprehensive income	8	47,835	132,897
Derivative financial instruments	8	–	1,499
Trade and other receivables	8	2,092,594	1,663,545
Prepayments		402,552	429,371
Current income tax recoverable		37,056	28,067
Restricted cash	8	30,666	60,379
Cash and cash equivalents	8	519,003	628,805
Total current assets		4,725,645	4,126,507
Total assets		7,830,368	7,071,806
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	9	141,976	141,976
Other reserves	10	1,301,893	1,301,869
Currency translation differences		(113,234)	(435,273)
Retained earnings		2,060,965	2,006,907
Non-controlling interests		29,159	27,348
Total equity		3,420,759	3,042,827

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2022

	Note	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	8	2,650,315	2,432,509
Lease liabilities	8	9,638	11,655
Deferred income tax liabilities		36,795	36,345
Deferred revenue		41,496	44,350
Total non-current liabilities		2,738,244	2,524,859
Current liabilities			
Trade and other payables	8	941,928	736,348
Derivative financial instruments	8	2,656	–
Contract liabilities		129,028	109,673
Current income tax liabilities		39,213	44,796
Borrowings	8	536,817	607,352
Lease liabilities	8	4,948	5,892
Deferred revenue		16,775	59
Total current liabilities		1,671,365	1,504,120
Total liabilities		4,409,609	4,028,979
Total equity and liabilities		7,830,368	7,071,806

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

		(Unaudited)	
		Six months ended 30 June	
	Note	2022 RMB'000	2021 RMB'000
Revenue	6(a)	1,703,243	1,571,075
Cost of sales		<u>(1,246,369)</u>	<u>(1,149,127)</u>
Gross profit		456,874	421,948
Selling and marketing expenses		(63,615)	(43,482)
Administrative expenses		(209,852)	(217,007)
Net impairment losses on financial assets		(47,561)	(25,308)
Other gains – net	11	<u>221,870</u>	<u>55,018</u>
Operating profit		357,716	191,169
Finance income	12	1,346	1,161
Finance costs	12	(287,291)	(142,694)
Finance costs – net		(285,945)	(141,533)
Share of (loss)/profit of investments accounted for using equity method		<u>(1,895)</u>	<u>26,013</u>
Profit before income tax		69,876	75,649
Income tax expense	13	<u>(13,912)</u>	<u>(33,289)</u>
Profit for the period		<u>55,964</u>	<u>42,360</u>
Profit attributable to:			
Equity owners of the Company		54,058	40,209
Non-controlling interests		<u>1,906</u>	<u>2,151</u>
		<u>55,964</u>	<u>42,360</u>
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	14	0.0319	0.0237
– Diluted	14	<u>0.0319</u>	<u>0.0237</u>

The above interim condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	(Unaudited)	
	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Profit for the period	<u>55,964</u>	<u>42,360</u>
Other comprehensive income/(loss):		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of financial assets at fair value through other comprehensive income	24	578
Exchange differences on translation of foreign operations	<u>321,944</u>	<u>(48,571)</u>
Total comprehensive income/(loss) for the period	<u><u>377,932</u></u>	<u><u>(5,633)</u></u>
Attributable to:		
Equity owners of the Company	376,121	(8,026)
Non-controlling interests	<u>1,811</u>	<u>2,393</u>
	<u><u>377,932</u></u>	<u><u>(5,633)</u></u>

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	(Unaudited)						
	Capital and reserves attributable to equity owners of the Company					Non-controlling interests	Total equity
	Ordinary shares	Other reserves	Retained earnings	Cumulative translation differences	Total		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2021	141,976	1,289,746	1,972,406	(329,656)	3,074,472	43,826	3,118,298
Profit for the period	-	-	40,209	-	40,209	2,151	42,360
Other comprehensive income/(loss)	-	578	-	(48,813)	(48,235)	242	(47,993)
Total comprehensive income/(loss) for the period	-	578	40,209	(48,813)	(8,026)	2,393	(5,633)
Transactions with owners in their capacity as owners							
Disposal of subsidiaries	-	1,646	-	-	1,646	360	2,006
Total transaction with owners	-	1,646	-	-	1,646	360	2,006
As at 30 June 2021	<u>141,976</u>	<u>1,291,970</u>	<u>2,012,615</u>	<u>(378,469)</u>	<u>3,068,092</u>	<u>46,579</u>	<u>3,114,671</u>
As at 1 January 2022	141,976	1,301,869	2,006,907	(435,273)	3,015,479	27,348	3,042,827
Profit for the period	-	-	54,058	-	54,058	1,906	55,964
Other comprehensive income/(loss)	-	24	-	322,039	322,063	(95)	321,968
Total comprehensive income for the period	-	24	54,058	322,039	376,121	1,811	377,932
As at 30 June 2022	<u>141,976</u>	<u>1,301,893</u>	<u>2,060,965</u>	<u>(113,234)</u>	<u>3,391,600</u>	<u>29,159</u>	<u>3,420,759</u>

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	(Unaudited)	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Cash flow from operating activities		
Cash flow generated from operations	47,961	313,795
Income tax paid	(53,807)	(19,863)
	(5,846)	293,932
Net cash (used in)/generated from operating activities		
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	10,508	6,548
Payments for property, plant and equipment	(58,786)	(51,491)
Net cash inflow arising from financial instruments	–	23,000
Purchases of intangible assets	(3,862)	(767)
Net proceeds from disposal of subsidiaries of the Group	–	106,480
Capital reduction from an associate	3,800	–
Loans to related parties	(1,524)	–
Dividends received	1,033	2,773
	(48,831)	86,543
Net cash (used in)/generated from investing activities		
Cash flow from financing activities		
Proceeds from borrowings	455,940	477,250

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

1 GENERAL INFORMATION OF THE GROUP

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

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

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

The interim condensed consolidated financial information was presented in Renminbi thousand (RMB’000), unless otherwise stated. This interim condensed consolidated financial information was approved for issue on 26 August 2022.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, “Interim financial reporting”.

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, it should be read in conjunction with the annual financial statements for the year ended 31 December 2021, and any public announcements made by the Company during the interim reporting period.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2021, except for the adoption of new and amended standards as set out below.

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

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

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

		Effective for annual periods beginning on or after
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
AG 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

3 ACCOUNTING POLICIES (continued)

- (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2022 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

4 ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to consolidated financial statements for the year ended 31 December 2021.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2021.

5.2 Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 30 June 2022					
Borrowings and interest payables	810,928	382,280	2,684,008	–	3,877,216
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	754,046	–	–	–	754,046
Lease liabilities	5,427	1,213	3,310	9,004	18,954
	<u>1,570,401</u>	<u>383,493</u>	<u>2,687,318</u>	<u>9,004</u>	<u>4,650,216</u>
As at 31 December 2021					
Borrowings and interest payables	889,895	278,004	2,687,862	–	3,855,761
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	551,308	–	–	–	551,308
Lease liabilities	6,663	3,268	3,085	8,977	21,993
	<u>1,447,866</u>	<u>281,272</u>	<u>2,690,947</u>	<u>8,977</u>	<u>4,429,062</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and contract assets included in the interim condensed consolidated financial information represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

All cash and cash equivalents and restricted cash were deposited in major financial institutions, which the directors of the Company believe are of high credit quality and will not be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables and time deposits. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The Group regularly monitors the credit history of the customers. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

It has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than five years past due.

For other receivables, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and experience, and forward-looking information. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

5.4 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2022 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

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

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation (continued)

The following table sets out the Group's financial assets and liabilities that were measured at fair value as at 30 June 2022 and 31 December 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 30 June 2022				
Financial Assets				
Financial instruments – current				
Financial assets at fair value through other comprehensive income (“FVOCI”)	–	–	47,835	47,835
Financial Liabilities				
Derivative financial instruments	–	(2,656)	–	(2,656)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2021				
Financial Assets				
Financial instruments – current				
Derivative financial instruments	–	1,499	–	1,499
Financial assets at FVOCI	–	–	132,897	132,897
	–	1,499	132,897	134,396

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the six months ended 30 June 2022 and 2021:

	2022 RMB'000	2021 RMB'000
As at 1 January	132,897	113,006
Additions	47,836	141,629
Deductions	(132,922)	(113,006)
Gains/(losses) recognised in other comprehensive income	24	(103)
As at 30 June (unaudited)	47,835	141,526
Total gains/(losses) for the period included in other comprehensive income under “Changes in the fair value of financial assets at FVOCI”	24	(103)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

5 FINANCIAL RISK MANAGEMENT (continued)

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

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

- Cash and cash equivalents
- Restricted cash
- Trade and other receivables
- Trade and other payables
- Borrowings
- Lease liabilities

6 SEGMENT INFORMATION

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

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

The corporate overheads are not considered as the business segment expenses during the six months ended 30 June 2022 and 2021 as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

6 SEGMENT INFORMATION (continued)

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

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

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2022 and 2021 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	1,003,136	659,359
Line pipe technology and services	177,271	138,292
Oilfield services	458,544	434,124
Offshore engineering services	64,292	339,300
	<u>1,703,243</u>	<u>1,571,075</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

6 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2022 is as follows:

Six months ended 30 June 2022 (Unaudited)					
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,018,309	200,823	458,544	64,292	1,741,968
Inter-segment sales	(15,173)	(23,552)	–	–	(38,725)
Revenue from external customers	<u>1,003,136</u>	<u>177,271</u>	<u>458,544</u>	<u>64,292</u>	<u>1,703,243</u>
Revenue from contracts with customers:					
– at a point in time	778,031	33,984	99,326	–	911,341
– over time	<u>217,631</u>	<u>143,287</u>	<u>359,218</u>	<u>64,292</u>	<u>784,428</u>
	995,662	177,271	458,544	64,292	1,695,769
Revenue from other sources:					
– rental income	<u>7,474</u>	–	–	–	<u>7,474</u>
	<u>1,003,136</u>	<u>177,271</u>	<u>458,544</u>	<u>64,292</u>	<u>1,703,243</u>
Results					
Segment gross profit/(loss)	<u>284,915</u>	<u>61,380</u>	<u>150,722</u>	<u>(40,143)</u>	<u>456,874</u>
Segment profit/(loss)	<u>305,373</u>	<u>25,818</u>	<u>85,650</u>	<u>(36,415)</u>	<u>380,426</u>
Corporate overheads					<u>(22,710)</u>
Operating profit					357,716
Finance income					1,346
Finance costs					(287,291)
Share of loss of investments accounted for using equity method					<u>(1,895)</u>
Profit before income tax					<u>69,876</u>
Other information					
Depreciation of property, plant and equipment	28,698	8,235	54,283	24,086	115,302
Depreciation of right-of-use assets	2,452	–	–	1,524	3,976
Amortization of intangible assets	4,149	354	232	7	4,742
Capital expenditure	<u>17,183</u>	<u>3,253</u>	<u>23,773</u>	<u>14,686</u>	<u>58,895</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

As at 30 June 2022 (Unaudited)

Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	3,616,180	739,336	1,961,843	1,426,506	7,743,865
Investments accounted for using equity method					86,503
Total assets					7,830,368
Total liabilities (a)	3,620,983	330,170	390,660	67,796	4,409,609

(a) As at 30 June 2022, the Senior Notes of USD377,345,000 (31 December 2021: USD377,345,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2021 is as follows:

Business segment	Six months ended 30 June 2021 (Unaudited)				
	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	669,599	197,793	434,124	339,300	1,640,816
Inter-segment sales	(10,240)	(59,501)	–	–	(69,741)
Revenue from external customers	<u>659,359</u>	<u>138,292</u>	<u>434,124</u>	<u>339,300</u>	<u>1,571,075</u>
Revenue from contracts with customers:					
– at a point in time	377,996	34,240	97,781	–	510,017
– over time	<u>256,263</u>	<u>104,052</u>	<u>336,343</u>	<u>339,300</u>	<u>1,035,958</u>
	634,259	138,292	434,124	339,300	1,545,975
Revenue from other sources:					
– rental income	<u>25,100</u>	–	–	–	<u>25,100</u>
	<u>659,359</u>	<u>138,292</u>	<u>434,124</u>	<u>339,300</u>	<u>1,571,075</u>
Results					
Segment gross profit	<u>173,117</u>	<u>69,067</u>	<u>143,176</u>	<u>36,588</u>	<u>421,948</u>
Segment profit	<u>44,983</u>	<u>86,201</u>	<u>45,360</u>	<u>34,911</u>	<u>211,455</u>
Corporate overheads					<u>(20,286)</u>
Operating profit					191,169
Finance income					1,161
Finance costs					(142,694)
Share of profit of investments accounted for using equity method					<u>26,013</u>
Profit before income tax					<u>75,649</u>
Other information					
Depreciation of property, plant and equipment	46,552	12,286	57,338	23,908	140,084
Depreciation of right-of-use assets	2,043	805	3,413	1,488	7,749
Amortization of intangible assets	1,121	328	166	7	1,622
Capital expenditure	<u>8,026</u>	<u>13,304</u>	<u>48,434</u>	<u>402</u>	<u>70,166</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

As at 30 June 2021 (Unaudited)

Business segment	Oilfield equipment manufacturing and services	Line pipe technology and services	Oilfield services	Offshore engineering services	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	2,894,482	890,857	1,924,887	1,385,756	7,095,982
Investments accounted for using equity method					92,787
Total assets					7,188,769
Total liabilities (a)	3,248,847	388,171	393,378	43,702	4,074,098

(a) As at 30 June 2021, the Senior Notes of USD400,735,000 (31 December 2020: USD365,114,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

(c) Geographical segments

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

	(Unaudited)	
	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Russia, Central Asia and Europe	485,181	344,387
Middle East	437,213	166,046
The PRC	288,764	489,998
North and South America	230,958	163,246
South Asia and Southeast Asia	154,136	322,521
Africa	106,991	76,423
Others	–	8,454
	<u>1,703,243</u>	<u>1,571,075</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June 2022 RMB'000	31 December 2021 RMB'000
The PRC	1,498,843	1,469,110
Middle East	346,104	344,191
Russia, Central Asia and East Europe	303,275	226,418
North and South America	281,005	264,628
South Asia and Southeast Asia	198,269	201,834
Africa	135,757	136,885
	<u>2,763,253</u>	<u>2,643,066</u>

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

	(Unaudited)	
	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
The PRC	33,536	21,932
North and South America	16,684	1,466
Russia, Central Asia and East Europe	5,101	45,514
Middle East	2,914	1,115
South Asia and Southeast Asia	645	108
Africa	15	31
	<u>58,895</u>	<u>70,166</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

7 PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

	(Unaudited)		
	Property, plant and equipment RMB'000	Right-of-use assets RMB'000	Intangible assets RMB'000
As at 1 January 2021			
Cost	4,383,069	151,173	264,448
Accumulated depreciation	(1,763,543)	(45,732)	(22,675)
Impairment provision	–	–	(2,097)
Net book amount	<u>2,619,526</u>	<u>105,441</u>	<u>239,676</u>
Six months ended 30 June 2021			
Opening net book amount	2,619,526	105,441	239,676
Additions	68,971	–	1,195
Disposals	(70,839)	(42,130)	–
Depreciation	(140,084)	(7,749)	(1,622)
Currency translation differences	(38,973)	(362)	(882)
Closing net book amount	<u>2,438,601</u>	<u>55,200</u>	<u>238,367</u>
As at 30 June 2021			
Cost	4,221,877	108,895	264,754
Accumulated depreciation	(1,783,276)	(53,695)	(24,290)
Impairment provision	–	–	(2,097)
Net book amount	<u>2,438,601</u>	<u>55,200</u>	<u>238,367</u>
As at 1 January 2022			
Cost	4,158,158	88,563	242,793
Accumulated depreciation	(1,776,534)	(37,340)	(30,477)
Impairment provision	–	–	(2,097)
Net book amount	<u>2,381,624</u>	<u>51,223</u>	<u>210,219</u>
Six months ended 30 June 2022			
Opening net book amount	2,381,624	51,223	210,219
Additions	55,033	–	3,862
Disposals	(14,327)	–	–
Depreciation	(115,302)	(3,976)	(4,742)
Currency translation differences	177,199	435	22,005
Closing net book amount	<u>2,484,227</u>	<u>47,682</u>	<u>231,344</u>
As at 30 June 2022			
Cost	4,453,175	88,991	268,941
Accumulated depreciation	(1,968,948)	(41,309)	(35,500)
Impairment provision	–	–	(2,097)
Net book amount	<u>2,484,227</u>	<u>47,682</u>	<u>231,344</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Financial assets			
Financial assets at FVOCI		47,835	132,897
Derivative financial instruments		–	1,499
Financial assets at amortised cost			
– Trade and other receivables	(a)	2,092,594	1,663,545
– Cash and cash equivalents		519,003	628,805
– Restricted cash		30,666	60,379
		<u>2,690,098</u>	<u>2,487,125</u>
Financial liabilities			
Borrowings	(b)	3,187,132	3,039,861
assets			Financial

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Trade and other receivables (continued)

As at 30 June 2022 and 31 December 2021, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB17,286,000 (31 December 2021: RMB1,694,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2022 (Note 8(b)(i)).

- (i) The aging analysis of trade receivables based on invoice date, before provision for loss allowance, as at 30 June 2022 and 31 December 2021 was as follows:

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Trade receivables, gross		
– Within 90 days	1,037,246	703,557
– Over 90 days and within 180 days	256,874	211,797
– Over 180 days and within 360 days	263,080	163,731
– Over 360 days and within 720 days	177,517	191,528
– Over 720 days	216,019	255,388
	<u>1,950,736</u>	<u>1,526,001</u>

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

	(Unaudited) Six months ended 30 June 2022 RMB'000	2021 RMB'000
Beginning of the period	(129,166)	(204,516)
Provision for receivables loss allowance	(42,917)	(29,162)
Reversal of loss allowance	–	4,000
Write-off of loss allowance	811	26,191
End of the period	<u>(171,272)</u>	<u>(203,487)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Non-current		
Bank borrowings – secured (i)	199,051	162,162
2024 Notes – secured (ii)	2,491,346	2,347,987
Less: Current portion of non-current bank borrowings – secured (i)	<u>(40,082)</u>	<u>(77,640)</u>
	<u>2,650,315</u>	<u>2,432,509</u>
Current		
Bank borrowings – secured (i)	496,735	529,712
Current portion of non-current bank borrowings – secured (i)	<u>40,082</u>	<u>77,640</u>
	<u>536,817</u>	<u>607,352</u>
	<u>3,187,132</u>	<u>3,039,861</u>

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Beginning of the period	3,039,861	3,125,515
Additions of borrowings – net	455,940	2,906,735
Repayments of borrowings	(459,086)	(2,867,996)
Amortization using the effective interest method	21,527	26,174
Exchange difference	<u>128,890</u>	<u>(26,999)</u>
End of the period	<u>3,187,132</u>	<u>3,163,429</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings (continued)

(i) Bank borrowings – secured

The bank borrowings of RMB37,694,000 (31 December 2021: RMB104,784,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 30 June 2022.

The borrowings of RMB24,633,000 (31 December 2021: RMB30,704,000) from financial institution were secured by trade receivables of RMB17,286,000 and future trade receivables of RMB26,442,000 (31 December 2021: trade receivables of RMB1,694,000 and future trade receivables of RMB43,471,000) of the Group as at 30 June 2022.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation (“**SINO SURE**”, a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2022, USD33,545,000 were drawn down, out of which USD16,920,000 had been repaid in past years and the six months ended 30 June 2022. The remaining principals will be fully repayable from 2022 to 2025.

As at 30 June 2022, the remaining part of bank borrowings of RMB633,459,000 (31 December 2021: RMB556,380,000) were guaranteed by subsidiaries of the Company within the Group.

(ii) Senior Notes

In May 2021, the Company completed the restructuring of the 2020 Notes and 2022 Notes by issuing new Senior Notes amounting to USD398,945,000, among which USD21,600,000 with a maturity date on 15 November 2021 and the rest with a maturity date on 18 November 2024 (the “**2024 Notes**”). The 2024 Notes were listed on the Singapore Exchange Securities Trading Limited on 20 May 2021 and guaranteed by certain subsidiaries of the Group. It bears interest at 9.75% per annum payable semi-annually in arrears on 18 May and 18 November of each year, beginning from 18 November 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other payables

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Bills payable	5,868	8,426
Trade payables:	628,495	455,066
– Due to third parties	609,025	435,402
– Due to related parties (Note 16(c))	19,470	19,664
Other payables:	96,907	69,440
– Due to third parties	84,233	60,423
– Due to related parties (Note 16(c))	12,674	9,017
Staff salaries and welfare payables	36,324	33,680
Interest payables	35,806	35,067
Accrued taxes other than income tax	115,752	116,293
Dividends payable	10,496	10,496
Other liabilities	12,280	7,880
	<u>941,928</u>	<u>736,348</u>

As at 30 June 2022 and 31 December 2021, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other payables (continued)

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

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Trade payables, gross		
– Within 90 days	349,176	282,231
– Over 90 days and within 180 days	268,564	164,173
– Over 180 days and within 360 days	4,804	2,110
– Over 360 days and within 720 days	2,246	3,210
– Over 720 days	3,705	3,342
	<u>628,495</u>	<u>455,066</u>

9 ORDINARY SHARES

	(Unaudited)		
	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary shares (In RMB)
As at 1 January 2021 and 30 June 2021	<u>1,696,438,600</u>	<u>169,643,860</u>	<u>141,975,506</u>
As at 1 January 2022 and 30 June 2022	<u>1,696,438,600</u>	<u>169,643,860</u>	<u>141,975,506</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

10 OTHER RESERVES

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Statutory reserve	124,008	124,008
Merger reserve	(496)	(496)
Share options reserve (a)	46,089	46,089
Share premium	1,175,144	1,175,144
Financial assets at FVOCI	(1)	(25)
Capital redemption reserve	702	702
Capital reserve	<u>(43,553)</u>	<u>(43,553)</u>
	<u>1,301,893</u>	<u>1,301,869</u>

(a) Share options reserve

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) 2013 Share Option Scheme

There was no change in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme during the six months ended 30 June 2022 and 2021:

	Exercise price (per share in HKD)	Outstanding shares (unaudited)	
		Six months ended 30 June	
		2022	2021
Beginning of the period	5.93	15,350,700	15,350,700
Current period change		–	–
End of the period	5.93	15,350,700	15,350,700

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2022 and 2021 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited)	
		Six months ended 30 June	
		2022	2021
5 February 2015	5.93	3,070,140	3,070,140
5 February 2016	5.93	3,070,140	3,070,140
5 February 2017	5.93	3,070,140	3,070,140
5 February 2018	5.93	3,070,140	3,070,140
5 February 2019	5.93	3,070,140	3,070,140
	5.93	15,350,700	15,350,700

All of the options were exercisable as at 30 June 2022 and 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) 2013 Share Option Scheme (continued)

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

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

The significant inputs into the model were as follows:

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

There was no expense recognised in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2022 for share options granted under the 2013 Share Option Scheme (six months ended 30 June 2021: no expense recognised in the interim condensed consolidated statement of profit or loss), with a corresponding amount credited in share options reserve.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

11 OTHER GAINS – NET

	(Unaudited)	
	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Exchange gains/(losses) – net	208,810	(35,538)
Government grants	5,443	3,930
Gains on disposal of property, plant and equipment – net	4,236	17,412
Net gains on disposal of subsidiaries (a)	–	64,998
Others	3,381	4,216
	<u>221,870</u>	<u>55,018</u>

- (a) On 1 June 2021, Hilong Group of Companies Ltd. transferred its 95% equity interest of Nantong Hilong Steel Pipe Co., Ltd. to a third party at a consideration of RMB3,000,000. The Group recorded a gain of approximately RMB7,325,637 from the disposal. All of the consideration has been collected in 2021.

On 25 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. transferred its 70% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd. to a third party at a consideration of RMB103,480,000. The Group recorded a gain of approximately RMB57,672,099 from the disposal. All of the consideration has been collected in 2021.

12 FINANCE COSTS – NET

	(Unaudited)	
	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Finance income:		
– Interest income derived from bank deposits	<u>1,346</u>	<u>1,161</u>
Finance costs:		
– Interest expense on bank borrowings	(158,957)	(166,317)
– Interest expense on lease liability	(172)	(377)
– Fair value losses on foreign exchange forward contracts	(4,154)	–
– Exchange (losses)/gains	<u>(124,008)</u>	<u>24,000</u>
	<u>(287,291)</u>	<u>(142,694)</u>
Finance costs – net	<u>(285,945)</u>	<u>(141,533)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

13 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Current income tax	38,488	18,759
Deferred income tax	(24,576)	14,530
Income tax expense	<u>13,912</u>	<u>33,289</u>

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% before 1 April 2018.

In accordance with the two-tiered profits tax regime, Hong Kong profits tax was calculated on 8.25% of the first HKD2,000,000 and 16.5% of the remaining balance of the estimated assessable profits from 1 April 2018.

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 35% prevailing in the places in which the Group operated for the six months ended 30 June 2022 (for the six months ended 30 June 2021: 15% to 35%).

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

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

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

Pursuant to Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("Hilong Energy") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2019 to 2021. As at 30 June 2022, Hilong Energy is in the process of renewal of the qualification.

As at 30 June 2022, the permanently reinvested unremitted earnings totalled RMB1,654,160,000 (31 December 2021: RMB1,603,380,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

14 EARNINGS PER SHARE

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

	(Unaudited)	
	Six months ended 30 June	
	2022	2021
Earnings attributable to equity owners of the Company (RMB'000)	54,058	40,209
Weighted average number of ordinary shares in issue (thousands of shares)	1,696,439	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

16 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2022 and 2021, and balances arising from related party transactions as at 30 June 2022 and 31 December 2021.

(i) *Controlling Shareholder*

Mr. Zhang Jun

(ii) *Close family member of the Controlling Shareholder*

Ms. Zhang Shuman

(iii) *Controlled by the Controlling Shareholder*

Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.

Beijing Huashi Hailong Oil Investments Co., Ltd.

Shanghai Hilong Shine New Material Co., Ltd.

Shanghai Longshi Investment Management Co., Ltd.

Hilong Group Limited

(iv) *Associates of the Group*

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.

Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.

Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

Shanghai Hilong Special Steel Pipe Co., Ltd.*

* Shanghai Hilong Special Steel Pipe Co., Ltd. was partially disposed on 25 June 2021, and became an associate of the Group (Note 11).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

16 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this interim condensed consolidated financial information, during the six months ended 30 June 2022 and 2021, the Group had the following significant transactions with related parties:

	(Unaudited)	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Sales of goods or services:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	3,786	1,716
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	3,749	5,056
Shanghai Hilong Shine New Material Co., Ltd.	907	1,187
	<u>8,442</u>	<u>7,959</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2022

16 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Trade receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	7,253	2,982
Shanghai Hilong Shine New Material Co., Ltd.	6,081	6,081
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	2,826	1,449
	<u>16,160</u>	<u>10,512</u>
Other receivables due from:		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	47,804	46,280
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	37,061	40,187
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	19,300	22,353
Shanghai Hilong Shine New Material Co., Ltd.	17,719	9,808
Hilong Group Limited	1,515	1,515
Shanghai Hilong Special Steel Pipe Co., Ltd.	–	3,389
	<u>123,399</u>	<u>123,532</u>
Lease liabilities due to:		
Shanghai Longshi Investment Management Co., Ltd.	3,488	5,409
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	19,470	19,642
Shanghai Longshi Investment Management Co., Ltd.	–	22
	<u>19,470</u>	<u>19,664</u>
Other payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	6,350	4,237
Shanghai Longshi Investment Management Co., Ltd.	5,386	3,842
Mr. Zhang Jun	938	938
	<u>12,674</u>	<u>9,017</u>
Dividends receivables:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	2,746	2,746

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

OTHER INFORMATION

CHANGE IN DIRECTORS' INFORMATION

There were changes in information of directors since the date of the 2021 Annual Report of the Company as follows:

- Mr. Wong Man Chung Francis, independent non-executive director, ceased to act as an independent non-executive director of GCL Technology Holdings Limited (stock code: 3800, formerly known as GCL-Poly Energy Holdings Limited) since 31 May 2022.
- On 25 July 2022, Dr. Fan Ren Da Anthony (范仁達) was appointed as a non-executive Director of the Company.

Save as disclosed above, there has been no change in the information of the Directors as required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

DISCLOSURE OF INTERESTS

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

As of 30 June 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of Shares interested	Approximate percentage in the Company's issued share capital
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	829,661,000 ⁽¹⁾	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800 ⁽²⁾	
	Beneficial owner	<u>1,260,000</u>	
		943,221,800	55.600%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000 ⁽³⁾	
	Beneficial owner	<u>692,000</u>	
		24,992,000	1.473%
Mr. Cao Hongbo	Beneficial owner	1,708,000	0.101%
Mr. Wong Man Chung Francis	Beneficial owner	1,288,000	0.076%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Dr. Yang Qingli	Interest of spouse	77,000 ⁽⁴⁾	0.005%

OTHER INFORMATION

Notes:

- (1) These shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte. Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as the trustee of Mr. Zhang's trust. As Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust as well as the sole director of Hilong Group Limited, he is deemed to be interested in these shares.
- (2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte. Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. As Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts as well as the sole director of North Violet Investment Limited and LongZhi Investment Limited, he is deemed to be interested in these shares.
- (3) These shares are held by Younger Investment Limited of which Ms. Zhang Shuman is the sole director. Ms. Zhang Shuman is therefore deemed to be interested in these shares.
- (4) These shares are held by Ms. Gao Chunyi, spouse of Dr. Yang Qingli. Dr. Yang Qingli is therefore deemed to be interested in these shares.

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

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

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

As at 30 June 2022, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares of the Company

Name of substantial shareholder	Capacity	Number of Shares interested	Approximate percentage in the Company's issued share capital
Hilong Group Limited	Beneficial owner	829,661,000 ⁽¹⁾	48.906%
SCTS Capital Pte. Ltd.	Nominee	963,338,800 ⁽¹⁾⁽²⁾	56.786%
Standard Chartered Trust (Singapore) Limited	Trustee	963,338,800 ⁽¹⁾⁽²⁾	56.786%
Ms. Gao Xia	Interest of spouse	943,221,800 ⁽³⁾	55.600%

OTHER INFORMATION

Notes:

- (1) 829,661,000 shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte. Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.
- (2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte. Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts.
- (3) Ms. Gao Xia is the spouse of Mr. Zhang Jun and is therefore deemed to be interested in the shares of the Company in which Mr. Zhang Jun is interested.

POST-IPO SHARE OPTION SCHEME

The Company adopted a post-IPO 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 interim report, none of the share options granted has been exercised. Details of movements in the options granted and outstanding under the post-IPO share option scheme during the Interim Period are as follows:

Category/ name of grantees	Number of share options				Outstanding as at 30 June 2022	Exercise price HK\$	Weighted average closing price immediately before exercise HK\$	Date of grant	Exercise period
	Outstanding as at 1 January 2022	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period					
Employees of the Group other than Directors	15,350,700	-	-	-	15,350,700	5.93	-	5 February 2014	5 February 2015 – 4 February 2024

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the Interim Period.

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 inquiries to all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Interim Period.

REVIEW OF INTERIM REPORT

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

PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDENDS

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

APPRECIATION

The Board wishes to express its sincerest gratitude to the shareholders and business partners of the Company for their continued support, and to the Group’s employees for their dedication and hard work.

For and on behalf of the Board

Hilong Holding Limited

ZHANG Jun

Chairman

26 August 2022