Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,623.0 million, representing a decrease of approximately 28.1% as compared with 2019.
- Gross profit was approximately RMB694.0 million, representing a decrease of approximately 40.2% as compared with 2019. Gross profit margin was 26.5% in 2020, representing a decrease of approximately 5.3% as compared with 2019.
- Loss for the year was approximately RMB298.7 million, as compared to the profit of the year of RMB188.2 million in 2019. Loss attributable to equity owners of the Company for the year was approximately RMB298.8 million, as compared to the profit attributable to equity owners of RMB176.8 million in 2019.
- Basic losses per share was approximately RMB0.2, as compared to the basic earnings per share of RMB0.1 in 2019.

The Board resolved not to recommend any dividend for the year ended 31 December 2020.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Hilong Holding Limited (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**Hilong**" or "**us**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRS**") for the year ended 31 December 2020 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2020

	Note	**Year ended 31 December** **2020** ***RMB'000***	2019 *RMB'000*
Revenue	*3*	**2,623,037**	3,649,906
Cost of sales		**(1,929,054)**	(2,488,725)
Gross profit		**693,983**	1,161,181
Selling and marketing expenses		**(119,944)**	(154,926)
Administrative expenses		**(398,803)**	(486,766)
Net impairment losses on financial assets		**(132,167)**	(42,266)
Other (losses)/gains – net	*6*	**(187,302)**	104,915
Operating (loss)/profit		**(144,233)**	582,138
Finance income		**13,685**	3,523
Finance costs		**(104,338)**	(278,493)
Finance costs – net	*7*	**(90,653)**	(274,970)
Share of profit of investments accounted for using equity method		**5,101**	5,236
(Loss)/profit before income tax		**(229,785)**	312,404
Income tax expense	*8*	**(68,912)**	(124,183)
(Loss)/profit for the year		**(298,697)**	188,221
(Loss)/profit attributable to:			
Equity owners of the Company		**(298,806)**	176,818
Non-controlling interests		**109**	11,403
		(298,697)	188,221
(Losses)/earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
– Basic (losses)/earnings per share	*9*	**(0.1761)**	0.1042
– Diluted (losses)/earnings per share	*9*	**(0.1761)**	0.1042

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(298,697)**	188,221
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss		
Changes in the fair value of financial assets at fair value through other comprehensive income	**681**	(3,081)
Currency translation differences	**(290,149)**	53,536
Other comprehensive (loss)/income for the year, net of tax	**(289,468)**	50,455
Total comprehensive (loss)/income for the year	**(588,165)**	238,676
Attributable to:		
Equity owners of the Company	**(588,469)**	227,302
Non-controlling interests	**304**	11,374
	(588,165)	238,676

CONSOLIDATED BALANCE SHEET
As at 31 December 2020

		As at 31 December	
	Note	**2020**	2019
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,619,526**	3,172,363
Right-of-use assets		**105,441**	120,268
Intangible assets		**239,676**	238,382
Investments accounted for using equity method		**50,888**	44,526
Deferred income tax assets		**190,692**	203,890
Other long-term assets		**70,816**	87,925
		3,277,039	3,867,354
Current assets			
Inventories		**1,001,255**	860,109
Contract assets		**160,886**	185,777
Financial assets at fair value through profit or loss		**23,377**	–
Financial assets at fair value through other comprehensive income		**89,629**	170,645
Trade and other receivables	*4*	**1,682,031**	2,341,098
Prepayment		**336,713**	182,331
Current income tax recoverable		**24,348**	26,170
Restricted cash		**77,616**	124,329
Cash and cash equivalents		**697,463**	783,178
		4,093,318	4,673,637
Total assets		**7,370,357**	8,540,991
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*11*	**141,976**	141,976
Other reserves		**1,289,746**	1,283,815
Currency translation differences		**(329,656)**	(39,312)
Retained earnings		**1,972,406**	2,276,462
		3,074,472	3,662,941
Non-controlling interests		**43,826**	43,522
Total equity		**3,118,298**	3,706,463

CONSOLIDATED BALANCE SHEET (CONT.)

As at 31 December 2020

		As at 31 December	
	Note	**2020**	2019
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**23,674**	1,531,246
Lease liabilities		**17,775**	20,314
Deferred income tax liabilities		**37,815**	45,019
Deferred revenue		**48,289**	51,862
		127,553	1,648,441
Current liabilities			
Trade and other payables	*5*	**906,793**	1,251,439
Contract liabilities		**65,742**	137,417
Current income tax liabilities		**39,865**	64,978
Borrowings		**3,101,841**	1,712,111
Lease liabilities		**10,206**	20,083
Deferred revenue		**59**	59
		4,124,506	3,186,087
Total liabilities		**4,252,059**	4,834,528
Total equity and liabilities		**7,370,357**	8,540,991

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Note	Capital and reserves attributable to equity owners						
	Note	**Ordinary shares** *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Cumulative Translation differences** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
As at 1 January 2019		141,976	1,139,627	2,120,614	(92,848)	3,309,369	212,641	3,522,010
Profit for the year		–	–	176,818	–	176,818	11,403	188,221
Other comprehensive (losses)/gains		–	(3,081)	–	53,536	50,455	–	50,455
Total comprehensive income for the year		–	(3,081)	176,818	53,536	227,273	11,403	238,676
Appropriation to statutory reserve		–	5,646	(5,646)	–	–	–	–
Transactions with owners								
2013 Share Option Scheme		–	93	–	–	93	–	93
Transactions with non-controlling interests		–	141,433	–	–	141,433	(171,557)	(30,124)
Disposal of a subsidiary		–	–	–	–	–	(1,960)	(1,960)
Non-controlling interests arising from incorporation of a subsidiary		–	–	–	–	–	695	695
Other additions		–	97	–	–	97	–	97
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(7,700)	(7,700)
Dividends in respect of 2018	*10*	–	–	(15,324)	–	(15,324)	–	(15,324)
As at 31 December 2019		141,976	1,283,815	2,276,462	(39,312)	3,662,941	43,522	3,706,463
As at 1 January 2020		**141,976**	**1,283,815**	**2,276,462**	**(39,312)**	**3,662,941**	**43,522**	**3,706,463**
(Loss)/profit for the year		**–**	**–**	**(298,806)**	**–**	**(298,806)**	**109**	**(298,697)**
Other comprehensive gains/(losses)		**–**	**681**	**–**	**(290,344)**	**(289,663)**	**195**	**(289,468)**
Total comprehensive income/(loss) for the year		**–**	**681**	**(298,806)**	**(290,344)**	**(588,469)**	**304**	**(588,165)**
Appropriation to statutory reserve		**–**	**5,250**	**(5,250)**	**–**	**–**	**–**	**–**
As at 31 December 2020		**141,976**	**1,289,746**	**1,972,406**	**(329,656)**	**3,074,472**	**43,826**	**3,118,298**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1 GENERAL INFORMATION OF THE GROUP

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

2.1.1 Going concern

For the year ended 31 December 2020, the Group reported a net loss of approximately RMB299 million and an operating cash inflow of RMB21 million. As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB31 million. At the same date, the Group's total borrowings amounted to RMB3,126 million, including current borrowings of RMB3,102 million, while its cash and cash equivalent amounted to RMB697 million only.

As at 31 December 2020, the Senior Notes of USD165 million (equivalent to RMB1,077 million) (the "**2020 Notes**") was not repaid in accordance with the repayment schedule pursuant to its offering document. This constituted an event of default, and resulted in cross default of the Senior Notes originally due in September 2022 (the "**2022 Notes**") and other bank borrowings, amounted to RMB1,846 million in total (collectively "**Cross-default Borrowings**") as at 31 December 2020 becoming immediately repayable if requested by the lenders. As a result, the non-current portion of Cross-default Borrowings with original repayment due dates after 31 December 2021, amounted to RMB1,410 million, was classified as current liabilities as at 31 December 2020.

Up to the date of the approval of these consolidated financial statements, the Company is in the process of restructuring the 2020 Notes and 2022 Notes (collectively the "**Existing Notes**") through a scheme of arrangement in the Cayman Islands (the "**Proposed Restructuring**").

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstance, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfil its financial obligations and continue as a going concern. The Group has formulated the following plans and measures to mitigate the liquidity pressure and to improve its cash flows.

- the Group has been proactively communicating with the holders of the Existing Notes to seek their support on the Proposed Restructuring, and will continue its efforts to successfully complete the Proposed Restructuring within the scheduled timetable. The directors are also confident that the Group can continuously satisfy the various requirements under the Proposed Restructuring;

- although no requests for immediate repayment have been made by the relevant banks, the Group has been proactively communicating with the relevant banks to elaborate the Group's business, operations and financial condition. The directors are confident that the Group can convince the relevant banks not to exercise their rights to require the Group for immediate repayment of the borrowings prior to their contractual repayment dates;

- the Group timely repaid the principle and interest of existing bank borrowings during 2020 and the directors believe that the Group will continue to repay the existing bank borrowings according to their contractual repayment dates;

- the Group has been proactively negotiating with several existing banks for the renewal of respective borrowings. The directors believe that the Group will be able to renew the existing borrowings when needed in light of the Group's credit history and long-term relationship with the relevant banks; and

- the Group will continue its efforts to implement measures to improve its sales, expedite collection of outstanding trade receivables and control the capital and operating expenditures in order to strengthen its working capital.

The directors have reviewed the Group's cash flow projection prepared by management, which covers a period of at least 12 months from 31 December 2020. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient funds to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the plans and measures taken by management, material uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the followings:

- successful completion of the Proposed Restructuring within the scheduled timetable and the continuous satisfaction of the various requirements under the Proposed Restructuring;

- successful maintenance of a continuing and normal business relationship with the Group's relevant banks such that no action will be taken by the banks to exercise their rights to demand immediate repayment of the relevant borrowings;

- successful repayment of the borrowings according to original contractual repayment dates;

- successful in negotiating with banks to renew the borrowings when needed; and

- the implementation of measures to improve sales, accelerate the collection of outstanding trade receivables and control capital and operating expenditures.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to reduce the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2.1.2 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to HKAS 1 and HKAS 8
- Definition of a Business – amendments to HKFRS 3
- Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting
- Covid-19-Related Rent Concessions – amendments to HKFRS 16 and Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1.3 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2020 and 2019 are set out as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Oilfield equipment manufacturing and services	**1,307,131**	1,652,331
Line pipe technology and services	**253,839**	360,781
Oilfield services	**683,782**	1,283,325
Offshore engineering services	**378,285**	353,469
	2,623,037	3,649,906

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2020 is as follows:

	Year ended 31 December 2020				
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	**1,361,897**	**353,442**	**683,782**	**378,391**	**2,777,512**
Inter-segment sales	**(54,766)**	**(99,603)**	**–**	**(106)**	**(154,475)**
Revenue from external customers	**1,307,131**	**253,839**	**683,782**	**378,285**	**2,623,037**
Revenue from contracts with customers:					
– at a point in time	**764,796**	**51,980**	**51,695**	**–**	**868,471**
– over time	**478,308**	**199,240**	**632,087**	**314,629**	**1,624,264**
	1,243,104	**251,220**	**683,782**	**314,629**	**2,492,735**
Revenue from other sources:					
– rental income	**64,027**	**2,619**	**–**	**63,656**	**130,302**
	1,307,131	**253,839**	**683,782**	**378,285**	**2,623,037**
Results					
Segment gross profit/(loss)	**477,249**	**75,499**	**156,291**	**(15,056)**	**693,983**
Segment profit/(loss)	**78,278**	**16,798**	**(94,759)**	**(82,017)**	**(81,700)**
Corporate overheads					**(62,533)**
Operating loss					**(144,233)**
Finance income					**13,685**
Finance costs					**(104,338)**
Share of profit of investments accounted for using equity method					**5,101**
Loss before income tax					**(229,785)**
Other information					
Depreciation of property, plant and equipment	**121,422**	**28,633**	**137,783**	**53,319**	**341,157**
Depreciation of Right-of-use assets	**4,065**	**1,760**	**14,669**	**2,620**	**23,114**
Amortisation of intangible assets	**5,797**	**707**	**390**	**15**	**6,909**
Capital expenditure	**65,179**	**13,896**	**12,923**	**9,005**	**101,003**

	As at 31 December 2020				
Business segment	**Oilfield equipment manufacturing and services** *RMB'000*	**Line pipe technology and services** *RMB'000*	**Oilfield services** *RMB'000*	**Offshore engineering services** *RMB'000*	**Total** *RMB'000*
Segment assets	**2,997,764**	**844,018**	**2,128,068**	**1,349,619**	**7,319,469**
Investments accounted for using equity method					**50,888**
Total assets					**7,370,357**
Total liabilities (a)	**3,486,675**	**288,157**	**446,396**	**30,831**	**4,252,059**

(a) As at 31 December 2020 and 2019, the Senior Notes of USD365,114,000 was included in the total liabilities of oilfield equipment manufacturing and services segment.

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2019 is as follows:

	Year ended 31 December 2019				
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	1,720,485	452,420	1,283,668	353,469	3,810,042
Inter-segment sales	(68,154)	(91,639)	(343)	–	(160,136)
Revenue from external customers	1,652,331	360,781	1,283,325	353,469	3,649,906
Revenue from contracts with customers:					
– at a point in time	1,224,555	50,740	134,585	–	1,409,880
– over time	315,163	310,041	1,148,740	353,469	2,127,413
	1,539,718	360,781	1,283,325	353,469	3,537,293
Revenue from other sources:					
– rental income	112,613	–	–	–	112,613
	1,652,331	360,781	1,283,325	353,469	3,649,906
Results					
Segment gross profit	571,469	105,913	456,835	26,964	1,161,181
Segment profit/(loss)	339,952	26,325	304,372	(23,554)	647,095
Corporate overheads					(64,957)
Operating profit					582,138
Finance income					3,523
Finance costs					(278,493)
Share of profit of investments accounted for using equity method					5,236
Profit before income tax					312,404
Other information					
Depreciation of property, plant and equipment	115,185	21,325	151,688	65,907	354,105
Depreciation of Right-of-use assets	3,563	3,036	15,498	2,366	24,463
Amortisation of intangible assets	2,428	294	229	539	3,490
Capital expenditure	137,224	18,207	92,749	80	248,260

	As at 31 December 2019				
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	3,241,216	965,075	2,805,171	1,485,003	8,496,465
Investments accounted for using equity method					44,526
Total assets					8,540,991
Total liabilities	3,807,471	318,946	630,573	77,538	4,834,528

(c) **Geographical segments**

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Russia, Central Asia and East Europe	**826,858**	917,580
South Asia and Southeast Asia	**504,095**	705,022
The PRC	**487,433**	900,942
Middle East	**432,770**	383,972
North and South America	**230,057**	482,752
Africa	**141,824**	258,617
Others	**–**	1,021
	2,623,037	3,649,906

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
The PRC	**1,601,893**	1,752,126
Middle East	**401,086**	485,503
North and South America	**343,388**	454,449
South Asia and Southeast Asia	**239,066**	307,567
Russia, Central Asia and East Europe	**212,180**	318,484
Africa	**167,030**	212,884
	2,964,643	3,531,013

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
The PRC	**51,290**	46,516
North and South America	**24,916**	127,099
Middle East	**19,882**	9,364
Russia, Central Asia and East Europe	**2,705**	45,543
South Asia and Southeast Asia	**1,611**	12,368
Africa	**599**	7,370
	101,003	248,260

(d) Assets and liabilities related to contracts with customers

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

	Notes	**31 December 2020** ***RMB'000***	31 December 2019 *RMB'000*
Current contract assets relating to offshore engineering and inspection services	*(i)*	**161,595**	186,313
Loss allowance		**(709)**	(536)
Total contract assets		**160,886**	185,777
Non-current asset recognised for costs incurred to fulfil a contract	*(iii)*	**43,193**	68,126
Contract liabilities – Sales and service contracts	*(i), (ii)*	**65,742**	137,417

(i) Significant changes in contract assets and liabilities

Contract assets are recorded for the provision of offshore engineering services and inspection services and have increased as the Group has provided more services ahead of the agreed payment schedules for these services contracts. The Group also recognised a loss allowance for contract assets as at 31 December 2020.

Contract liabilities are recorded for the payments received in advance of the performance under the contracts which are mainly from sales of goods and provision of services. The decrease in contract liabilities as at 31 December 2020 was mainly due to the decrease in the advances from customers.

(ii) Revenue recognised in relation to contract liabilities

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

	31 December 2020 ***RMB'000***	31 December 2019 *RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the period		
– Sales of goods	**80,459**	68,372
– Provision of service	**56,958**	3,093
	137,417	71,465

Contract liability that is non-current, with amount of RMB24,904,000 as at 31 December 2020 (31 December 2019: RMB37,635,000), is included in "Deferred revenue – Mobilisation fees".

(iii) Assets recognised from costs to fulfil a contract

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

	2020	2019
	RMB'000	*RMB'000*
Asset recognised from costs incurred to fulfil oilfield service contracts as at 31 December	**43,193**	68,126
Amortisation recognised as cost of providing services during the period	**24,933**	18,486

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

4 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables (i)	**1,648,449**	2,191,645
– Due from related parties	**10,102**	6,140
– Due from third parties	**1,638,347**	2,185,505
Less: provision for loss allowance of receivables (ii)	**(204,516)**	(105,269)
Trade receivables – net	**1,443,933**	2,086,376
Other receivables (iii)	**235,352**	251,976
Dividend receivables	**2,746**	2,746
Trade and other receivables – net	**1,682,031**	2,341,098

As at 31 December 2020 and 2019, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB4,118,000 (31 December 2019: RMB12,813,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2020.

As at 31 December 2020 and 2019, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
– USD	**836,873**	1,307,947
– RMB	**466,293**	718,400
– RUB	**254,408**	231,650
– AED	**75,353**	39,212
– NGN	**30,602**	20,848
– CAD	**6,172**	6,347
– PKR	**5,483**	1,391
– PEN	**5,135**	8,852
– KZT	**531**	627
– MYR	**199**	2,353
– ALL	**27**	2,150
– Other currencies	**955**	1,321
	1,682,031	2,341,098

* RUB – Russian Ruble, AED – the United Arab Emirates Dirham, NGN – Nigerian Naira, PEN – Peru, CAD – Canadian Dollar, MYR – Malaysian ringgit, ALL – Albanian Lek, PKR – Pakistani rupee, KZT – Kazakhstan tenge, HKD – Hong Kong Dollar, EUR – European euro, ETB – Ethiopia birr, OMR – Oman rial, UAH – Hryvnia.

(i) The ageing analysis of trade receivables based on invoice date, before provision for loss allowance, as at 31 December 2020 and 2019 was as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**617,547**	910,130
– Over 90 days and within 180 days	**154,954**	388,624
– Over 180 days and within 360 days	**243,305**	351,649
– Over 360 days and within 720 days	**337,770**	367,799
– Over 720 days	**294,873**	173,443
	1,648,449	2,191,645

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
As at 1 January	**(105,269)**	(154,978)
Provision for receivables loss allowance	**(131,994)**	(41,730)
Write-off of loss allowance	**32,747**	91,439
As at 31 December	**(204,516)**	(105,269)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Due from related parties	**96,196**	148,537
Deposits	**64,699**	44,816
Staff advances	**20,872**	23,018
Value added tax refund	**7,367**	978
Others (i)	**46,218**	34,627
	235,352	251,976

(i) On 30 September 2018, Hilong Group of Companies Ltd. transferred its 100% equity interest of Jiangsu Hilong Drill Pipe Co., Ltd. to Jiangsu Shuguang Group Co., Ltd. at a consideration of RMB24,727,622. The Group recorded a gain of approximately RMB3,446,597 from the disposal. RMB15,727,622 of the consideration was waived by an offsetting agreement and the remaining balance of RMB9,000,000 (31 December 2019: RMB9,000,000) was not yet collected.

5 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Bills payable	**11,017**	233,171
Trade payables:	**444,289**	658,402
– Due to third parties	**426,206**	643,219
– Due to related parties	**18,083**	15,183
Other payables:	**167,110**	155,294
– Due to related parties (i)	**26,331**	59,719
– Due to third parties (ii)	**140,779**	95,575
Staff salaries and welfare payables	**31,934**	42,314
Interest payables	**169,401**	33,364
Accrued taxes other than income tax	**59,538**	99,281
Dividends payable	**10,496**	11,809
Other liabilities	**13,008**	17,804
	906,793	1,251,439

(i) As at 31 December 2020 and 2019, there was an unpaid cash consideration amounted to RMB938,000 in relation to the acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd, which was completed on 8 May 2014.

(ii) As at 31 December 2020 and 2019, there was an unpaid cash consideration due to Kamelon LLC amounted to USD200,000 in relation to the acquisition of Russia Coating Business which was completed on 1 December 2014.

As at 31 December 2020 and 2019, all trade and other payables of the Group were non-interest bearing, and their fair values, excluding the interest payables, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

As at 31 December 2020 and 2019, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
– RMB	**536,096**	883,741
– USD	**300,352**	209,421
– AED	**30,304**	18,499
– RUB	**26,427**	60,294
– NGN	**3,372**	35,659
– PKR	**3,802**	18,396
– ETB	**1,815**	13,059
– ALL	**1,656**	883
– UAH	**1,432**	1,160
– KZT	**1,150**	730
– OMR	**158**	1,661
– CAD	**103**	1,810
– MYR	**69**	952
– EUR	**–**	4,862
– Other currencies	**57**	312
	906,793	1,251,439

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**287,653**	470,851
– Over 90 days and within 180 days	**133,833**	148,170
– Over 180 days and within 360 days	**16,630**	29,941
– Over 360 days and within 720 days	**4,524**	7,270
– Over 720 days	**1,649**	2,170
	444,289	658,402

6 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Government grants	**1,844**	6,517
Net gains on disposal of a subsidiary (a)	**–**	1,605
(Losses)/gains on disposal of property, plant and equipment – net	**(6,589)**	3,825
Exchange (losses)/gains	**(175,487)**	98,619
Others	**(7,070)**	(5,651)
	(187,302)	104,915

(a) On 30 October 2019, Hilong Pipeline Engineering Technology Service Co., Ltd. transferred its total 55% equity interest of Hilong Pipeline Engineering Technology Service Taicang Co., Ltd. to Shanghai Jiafang Steel Pipe (Group) Co., Ltd. and Shanghai Jia Fang Pipe (Taicang) Co., Ltd. at a total consideration of RMB4,000,000. The Group recorded a gain of approximately RMB1,605,000 from the disposal. RMB2,000,000 of the consideration was collected in 2019, and the remaining RMB2,000,000 of the consideration was collected in 2020.

7 FINANCE COSTS – NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Finance income:		
– Interest income derived from bank deposits	**5,295**	3,523
– Fair value gains on financial assets at FVPL	**377**	–
– Fair value gains on foreign exchange forward contracts	**8,013**	–
	13,685	3,523
Finance costs:		
– Interest expense on Senior Notes and other borrowings	**(261,807)**	(246,136)
– Interest expense on lease liabilities	**(1,637)**	(2,611)
– Exchange gains/(losses)	**159,106**	(29,746)
	(104,338)	(278,493)
Finance costs – net	**(90,653)**	(274,970)

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax	**62,404**	119,074
Deferred income tax	**6,508**	5,109
Income tax expense	**68,912**	124,183

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit before tax	**(229,785)**	312,404
Tax calculated at statutory tax rates applicable to each group entity	**(20,238)**	78,212
Tax effect of:		
Expenses not deductible for tax purpose	**(5,830)**	3,788
Additional deduction for research and development expenses (b)	**(7,012)**	(8,960)
Tax effect of reduced tax rate	**–**	1,447
Utilisation of previously unrecognised tax losses	**(10,114)**	(11,825)
Tax losses of subsidiaries not recognised	**112,106**	61,521
Tax charge	**68,912**	124,183

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 China) are subject to income tax rates ranging from 15% to 35% prevailing in the places in which these enterprises operated for the year ended 31 December 2020 and 2019.

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

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

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

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

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 31 December 2019, all the earnings generated by the Company's wholly-owned PRC subsidiaries will all be permanently reinvested. During the year ended 31 December 2020, losses of RMB44,480,000 have been generated by the Company's wholly-owned PRC subsidiaries. Accordingly, deferred income tax liabilities of RMB2,224,000 (2019: RMB3,267,000) have been reversed for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2020. As at 31 December 2020, deferred income tax liabilities of RMB74,696,000 (31 December 2019: RMB76,920,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,493,920,000 (31 December 2019: RMB1,538,400,000).

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

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

	Year ended 31 December	
	2020	2019
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	15%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	15%
Shanghai Boteng Welding Consumable Co., Ltd.*	**15%**	15%
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.*	**15%**	15%
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.*	**15%**	15%
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.*	**15%**	15%
Hilong Group (Shanghai) Information Technology Company*	**15%**	15%

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

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

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2020 to 2022.

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

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

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

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

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

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

* Shanghai Hilong Tubular Goods Manufacturing Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2019 to 2021.

* Hilong Group (Shanghai) Information Technology Company is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2019 to 2021.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2020 and 2019.

(b) Additional deduction for research and development expenses

Pursuant to the CIT Law, an additional tax deduction relating to research and development expenses incurred is allowed, after the approval by the tax authorities is obtained. This additional allowed deduction is calculated at 75% of the actual research and development expenses incurred from 1 January 2018 to 31 December 2020.

9 (LOSSES)/EARNINGS PER SHARE

Basic (losses)/earnings per share

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

	Year ended 31 December	
	2020	2019
(Loss)/profit attributable to equity owners of the Company *(RMB'000)*	**(298,806)**	176,818
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic (losses)/earnings per share *(RMB per share)*	**(0.1761)**	0.1042

Diluted (losses)/earnings per share

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

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

As at 31 December 2020, there were 29,449,100 (31 December 2019: 29,500,300) share options outstanding related to Pre-IPO share option plan. For the years ended 31 December 2020 and 31 December 2019, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on (losses)/earnings per share was anti-dilutive.

As at 31 December 2020, there were 15,350,700 (31 December 2019: 16,058,100) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2020 and 31 December 2019, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on (losses)/earnings per share was anti-dilutive.

10 DIVIDENDS

The Directors have determined that no dividend will be proposed for the year ended 31 December 2020.

The dividend in respect of 2019 of HKD0.0200 (equivalent to RMB0.0180) per share, amounting to a total dividend of HKD33,928,000 (equivalent to RMB30,535,000) was withdrawn by the board of directors of the Company by way of written resolutions on 1 June 2020.

The dividend in respect of 2018 of HKD0.0100 (equivalent to RMB0.0090) per share, amounted to a total dividend of HKD16,964,000 (equivalent to RMB15,324,000), was approved at the Company's annual general meeting on 21 June 2019. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2019 and paid out.

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

11 ORDINARY SHARES

	Number of ordinary shares	**Nominal value of ordinary shares** *(In HKD)*	**Equivalent nominal value of ordinary shares** *(In RMB)*
As at 31 December 2019 and 31 December 2020	1,696,438,600	169,643,860	141,975,506

12 EVENTS AFTER THE BALANCE SHEET DATE

On 19 January 2021, the Company announced that 92.1% of the aggregate outstanding principal amount of the Existing Notes had acceded to the Restructuring Support Agreement.

On 19 March 2021, the Company announced that the convening hearing in respect of the Cayman Scheme (the "**Scheme Convening Hearing**"), at which an Order will be sought to convene the Scheme Meeting for the purpose of considering and, if thought fit, approving (with or without modification) the Cayman Scheme (the "**Scheme Convening Order**").

On 23 March 2021, the Company announced that by the Scheme Convening Order, the Grand Court of the Cayman Islands (the "**Court**") has directed that the Scheme Meeting be convened for the purposes of considering and, if thought fit, approving the Scheme on 4 May 2021 (Cayman time), and the Company expects to have the Scheme being subject to the subsequent approval and sanction of the Court via the Scheme Sanction Hearing presently scheduled to take place on 6 May 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

	Year ended 31 December			
	2020		2019	
	RMB'000	***%***	*RMB'000*	*%*
Oilfield equipment manufacturing and services				
– Drill pipes	**834,424**	**31.8**	1,089,198	29.8
– Oil country tubular goods ("**OCTG**") coating services	**282,832**	**10.8**	328,476	9.0
– Drill pipe components	**39,224**	**1.5**	42,446	1.2
– Hardbanding	**13,064**	**0.5**	20,599	0.6
– Others	**137,587**	**5.2**	171,612	4.7
Subtotal	**1,307,131**	**49.8**	1,652,331	45.3
Line pipe technology and services				
– OCTG coating materials	**16,321**	**0.6**	33,388	0.9
– Oil and gas line pipe coating materials	**4,150**	**0.2**	919	–
– Oil and gas line pipe coating services	**90,286**	**3.4**	150,914	4.1
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**11,137**	**0.4**	19,021	0.5
– Concrete Weighted Coating ("**CWC**") services	**79,974**	**3.0**	131,488	3.6
– Pipeline inspection services	**51,971**	**2.0**	25,051	0.7
Subtotal	**253,839**	**9.6**	360,781	9.8
Oilfield services	**683,782**	**26.1**	1,283,325	35.2
Offshore engineering services	**378,285**	**14.5**	353,469	9.7
Total revenue	**2,623,037**	**100.0**	3,649,906	100.0

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

	Year ended 31 December			
	2020		2019	
	RMB'000	*%*	*RMB'000*	*%*
Russia, Central Asia and East Europe	**826,858**	**31.5**	917,580	25.1
South Asia and Southeast Asia	**504,095**	**19.2**	705,022	19.3
The PRC	**487,433**	**18.6**	900,942	24.8
Middle East	**432,770**	**16.5**	383,972	10.5
North and South America	**230,057**	**8.8**	482,752	13.2
Africa	**141,824**	**5.4**	258,617	7.1
Others	**–**	**–**	1,021	–
Total	**2,623,037**	**100.0**	3,649,906	100.0

Revenue decreased by RMB1,026.9 million, or 28.1%, from RMB3,649.9 million in 2019 to RMB2,623.0 million in 2020. Such decrease was mainly due to the decrease in revenue from oilfield services segment and oilfield equipment manufacturing and services segment, and was partly offset by the increase in revenue from offshore engineering services.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment decreased by RMB345.2 million, or 20.9%, from RMB1,652.3 million in 2019 to RMB1,307.1 million in 2020. Such decrease primarily reflected a decrease in revenue derived from drill pipes sales and drill pipes lease.

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

	Year ended 31 December	
	2020	2019
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**36,791**	37,172
– unit price *(RMB/tonne)*	**20,903**	20,662
Subtotal *(RMB'000)*	**769,041**	768,064
– The PRC market		
– volume *(tonnes)*	**3,998**	19,284
– unit price *(RMB/tonne)*	**16,354**	16,653
Subtotal *(RMB'000)*	**65,383**	321,134
Total *(RMB'000)*	**834,424**	1,089,198

Revenue from sales of drill pipes in the international market increased by RMB1.0 million, or 0.1%, from RMB768.0 million in 2019 to RMB769.0 million in 2020. The increase primarily reflected an increase of 1.2% in the unit price of drill pipes sold from RMB20,662 per tonne in 2019 to RMB20,903 per tonne in 2020. Such increase indicated that the company has sold more high-end drill pipes in Middle East and Russian market and that the Company put more emphasis on long-term cooperation with prestigious customers in international market.

Revenue from sales of drill pipes in the PRC market decreased by RMB255.7 million, or 79.6%, from RMB321.1 million in 2019 to RMB65.4 million in 2020. The decrease primarily reflected a 79.3% decrease in the volume of drill pipes sold in the PRC market from 19,284 tonnes in 2019 to 3,998 tonnes in 2020, and a 1.8% slight decrease in the average selling price sold in the PRC market from RMB16,653 per tonne in 2019 to RMB16,354 per tonne in 2020. The decrease in the sales volume primarily reflected the deferred capital and operating expenses of certain oil and gas companies in the PRC market. The decrease in the average selling price primarily reflected the decrease of the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group in 2020 compared to that in 2019.

Revenue from OCTG coating services decreased by RMB45.7 million, or 13.9%, from RMB328.5 million in 2019 to RMB282.8 million in 2020. The decrease was mainly due to the delay in capital and operation spending by certain oil and gas companies in 2020.

Line pipe technology and services. Revenue from line pipe technology and services segment decreased by RMB107.0 million, or 29.6%, from RMB360.8 million in 2019 to RMB253.8 million in 2020. Such decrease primarily reflected a decrease in the revenue derived from oil and gas line pipe coating services and concrete weighted coating (CWC) services.

The decrease in revenue derived from oil and gas line pipe coating services and concrete weighted coating (CWC) services was mainly reflected that, due to the outbreak of COVID-19, the execution of some projects was postponed, and therefore resulting in the declining production.

Oilfield services. Revenue from the oilfield services segment decreased by RMB599.5 million, or 46.7%, from RMB1,283.3 million in 2019 to RMB683.8 million in 2020. Such decrease was mainly due to the lower utilisation rate of drilling rigs in 2020 as compared to 2019 as a consequence of the outbreak of COVID-19 .

Offshore engineering services. Revenue from the offshore engineering service segment in 2020 primarily represented the revenue of RMB314.7 million from the Bengal Project and RMB63.6 million from the offshore wind power construction project.

Cost of Sales/Services

Cost of sales/services decreased by RMB559.6 million, or 22.5%, from RMB2,488.7 million in 2019 to RMB1,929.1 million in 2020.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB467.2 million, or 40.2%, from RMB1,161.2 million in 2019 to RMB694.0 million in 2020. Gross profit margin was 26.5% in 2020, decreased by 5.3% from that in 2019.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB35.0 million, or 22.6%, from RMB154.9 million in 2019 to RMB119.9 million in 2020. These expense, amounting to 4.6% of revenue in 2020, were slightly higher than 4.2% in 2019.

Administrative Expenses

Administrative expenses decreased by RMB88.0 million, or 18.1%, from RMB486.8 million in 2019 to RMB398.8 million in 2020. Such decrease primarily reflected the decrease in staff costs and travelling expense.

Other (Losses)/Gains – Net

The Group recognised net loss of RMB187.3 million in 2020 and net gain of RMB104.9 million in 2019. The net loss recognised in 2020 reflected an exchange loss of RMB175.5 million from the operating activities as a combined result of the depreciation of the Ruble, United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**"). The net gain recognised in 2019 reflected an exchange gain of RMB98.6 million from the operating activities as a combined result of the appreciation of the Ruble, United States Dollar and Hong Kong Dollar, and government grants of RMB6.5 million in relation to new and high-technology projects.

Finance Costs – Net

Finance costs – net decreased by RMB184.4 million, or 67.1%, from RMB275.0 million in 2019 to RMB90.6 million in 2020. Such decrease primarily reflected (i) an exchange gain of RMB159.1 million from the financing activities resulting from the depreciation of USD, while in 2019 the exchange loss was RMB29.7 million from the financing activities resulting from the appreciation of USD and HKD; and (ii) the finance income increased from RMB3.5 million in 2019 to RMB13.7 million in 2020, and was partly offset by an increase in the interest expense on Senior Notes and other borrowing from RMB246.1 million in 2019 to RMB261.8 million in 2020.

Profit before Income Tax

As a result of the foregoing, the Group recognised profit before income tax of RMB312.4 million in 2019 and losses before income tax of RMB229.8 million in 2020.

Income Tax Expense

The Group recognised income tax expense of RMB124.2 million in 2019 and RMB68.9 million in 2020. Effective tax rate was approximately 39.8% in 2019 and –30.0% in 2020, the decrease of effective tax rate mainly reflected the further imbalance of the subsidiaries' profit.

Profit for the year attributable to equity owners of the Company

As a result of the foregoing, the Group recognised profit for the period attributable to equity owners of the Company of RMB176.8 million in 2019 and loss for the period attributable to equity owners of the Company of RMB298.8 million in 2020.

Inventories

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

	As at/for the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Inventory	**1,001,255**	860,109
Turnover days of inventory (in days)[(1)]	**177**	128

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 and 366 for each of the years ended 31 December 2019 and 2020. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase of inventories from 31 December 2019 to 31 December 2020 is mainly due to the lower sales.

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 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables		
– Due from third parties	**1,638,347**	2,185,505
– Due from related parties	**10,102**	6,140
– Less: Provision for impairment of receivables	**(204,516)**	(105,269)
Trade receivables – net	**1,443,933**	2,086,376
Other receivables		
– Due from third parties	**139,156**	103,439
– Due from related parties	**96,196**	148,537
Other receivables	**235,352**	251,976
Dividend receivables	**2,746**	2,746
Total	**1,682,031**	2,341,098

The trade receivables of RMB4,118,000 (31 December 2019: RMB12,813,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2020.

Net trade receivables represent receivables from 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 for the years indicated:

	As at/for the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables, net		
– Within 90 days	**614,800**	907,375
– Over 90 days and within 180 days	**154,954**	388,624
– Over 180 days and within 360 days	**237,912**	341,155
– Over 360 days and within 720 days	**305,019**	352,456
– Over 720 days	**131,248**	96,766
	1,443,933	2,086,376
Turnover days of trade receivables, net[(1)]	**246**	195

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 and 366 for each of the years ended 31 December 2019 and 2020. 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.

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

	Year ended 31 December	
	2020	2019
As at 1 January	**105,269**	154,978
Provision for receivables loss allowance	**131,994**	41,730
Write-off of loss allowance	**(32,747)**	(91,439)
As at 31 December	**204,516**	105,269

The increase in turnover days of trade receivables from 195 days as at 31 December 2019 to 246 days as at 31 December 2020 primarily reflected that that settlement for trade receivables due from certain oil and gas companies in the international market was less active and slowed down in 2020.

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 31 December	
	2020	2019
	RMB'000	*RMB'000*
Bills payable	**11,017**	233,171
Trade payables		
– Due to related parties	**18,083**	15,183
– Due to third parties	**426,206**	643,219
Other payables		
– Due to related parties	**26,331**	59,719
– Due to third parties	**140,779**	95,575
Staff salaries and welfare payables	**31,934**	42,314
Interest payables	**169,401**	33,364
Accrued taxes other than income tax	**59,538**	99,281
Dividends payable	**10,496**	11,809
Other liabilities	**13,008**	17,804
	906,793	1,251,439

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

	As at/for the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**287,653**	470,851
– Over 90 days and within 180 days	**133,833**	148,170
– Over 180 days and within 360 days	**16,630**	29,941
– Over 360 days and within 720 days	**4,524**	7,270
– Over 720 days	**1,649**	2,170
	444,289	658,402
Turnover days of trade payables[(1)]	**105**	98

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 and 366 for each of the years ended 31 December 2019 and 2020. Average trade payables equals to balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net cash generated from operating activities	**20,530**	416,166
Net cash used in investing activities	**(24,755)**	(214,871)
Net cash used in financing activities	**(56,618)**	(84,265)
Net (decrease)/increase in cash and cash equivalents	**(60,843)**	117,030
Exchange gains on cash and cash equivalents	**(24,872)**	4,410
Cash and cash equivalents at beginning of the year	**783,178**	661,738
Cash and cash equivalents at end of the year	**697,463**	783,178

As at 31 December 2020, cash and cash equivalents are mainly in RMB, USD, RUB, PKR and CAD.

Operating Activities

Net cash generated from operating activities in 2020 was RMB20.5 million, representing cash generated from operation of RMB98.4 million, offset by the income tax payment of RMB77.9 million.

Net cash generated from operating activities in 2019 was RMB416.2 million, representing cash generated from operation of RMB489.8 million, offset by the income tax payment of RMB73.6 million.

Investing Activities

Net cash used in investing activities in 2020 was RMB24.8 million, primarily reflecting (i) payment of RMB38.7 million for purchases of property, plant and equipment, (ii) RMB24.0 million for purchases of intangible assets, and (iii) net cash outflow arising from financial instruments of RMB23.0 million, partially offset by proceeds of RMB55.8 million from disposal of property, plant and equipment and proceeds of RMB2.0 million from disposal of subsidiaries of the Group.

Net cash used in investing activities in 2019 was RMB214.9 million, primarily reflecting (i)payment of RMB218.9 million for purchases of property, plant and equipment, and (ii) RMB22.2 million for purchases of intangible assets, partially offset by proceeds of RMB21.2 million from disposal of property, plant and equipment and proceeds of RMB1.7 million from disposal of subsidiaries of the Group.

Financing Activities

Net cash used in financing activities in 2020 was RMB56.6 million, primarily reflecting (i) the repayment of borrowing of RMB609.4 million, (ii) the interest payment of RMB96.1 million, and (iii) the lease payment of RMB22.3 million, partially offset by (i) proceeds of RMB667.3 million from borrowings, and (ii) net cash inflow of RMB10.8 million arising from security deposit for bank borrowings.

Net cash used in financing activities in 2019 was RMB84.3 million, primarily reflecting (i) the repayment of borrowing of RMB797.4 million, (ii) the interest payment of RMB234.0 million, and (iii) the dividends payment of RMB15.3 million, partially offset by (i) proceeds of RMB950.0 million from borrowings, and (ii) net cash inflow of RMB36.5 million arising from security deposit for bank borrowings.

Capital Expenditures

Capital expenditures were RMB248.3 million and RMB101.0 million in 2019 and 2020 respectively. The decrease in capital expenditures in 2020 was mainly due to that there are only maintenance capital expenditures in 2020 of each segment.

Indebtedness

As at 31 December 2020, the outstanding indebtedness of RMB3,125.5 million was mainly denominated in USD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – secured	**25,764**	211,517
Bank borrowings – unsecured	**–**	294
2022 Notes	**–**	1,356,369
Less: Current portion of non-current borrowings		
– secured	**(2,090)**	(36,816)
– unsecured	**–**	(118)
	23,674	1,531,246
Current		
Bank borrowings – secured	**157,145**	107,300
Bank borrowings – unsecured	**19,352**	418,661
2020 Notes	**1,077,352**	1,149,216
Cross-default Borrowings	**1,845,902**	–
Current portion of non-current borrowings		
– secured	**2,090**	36,816
– unsecured	**–**	118
	3,101,841	1,712,111
	3,125,515	3,243,357

As at 31 December 2020, bank borrowings of RMB2,962.3 million were obtained at fixed rate (31 December 2019: RMB2,875.3 million).

The bank borrowings of RMB47.5 million (31 December 2019: RMB67.8 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB2.4 million as at 31 December 2020 (31 December 2019: RMB13.1 million).

The borrowings of RMB12,640,000 (31 December 2019: RMB15,240,000) from financial institution were secured by trade receivables of RMB4,118,000 (31 December 2019: RMB12,813,000) of the Group as at 31 December 2020.

The bank borrowings of RMB70,969,000 (31 December 2019: RMB24,238,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 31 December 2020.

As at 31 December 2019, the bank borrowings of USD31,025,000 (RMB211,517,000 equivalent) was drawn down from an insured facility agreement of USD36,000,000. In 2020, USD5,400,000 has been repaid and the remaining balance with original repayment dates beyond 31 December 2021 was presented in the current borrowings as at 31 December 2020.

On 18 January 2018, the Company issued USD60,000,000 7.25% senior notes due 2020 to be consolidated and form a single series with the USD250,000,000 7.25% senior notes due 2020 previously issued by the Company on 22 June 2017 (collectively, the "**2020 Notes**". together with the 2022 Notes, the "**Existing Notes**"). The 2020 Notes was listed on the Stock Exchange on 23 June 2017 and delisted on 22 June 2020 upon its maturity.

In September 2019, the Company repurchased its outstanding 2020 Notes in an aggregate principal amount of USD144,886,000 out of the proceeds from the concurrent issue of USD200,000,000 8.25% senior notes due 2022 (the "**2022 Notes**") by the Company. After cancellation of the repurchased 2020 Notes, the aggregate principal amount of the 2020 Notes which remains outstanding was USD165,114,400. The 2022 Notes was listed on the Stock Exchange on 27 September 2019 and subsequently suspended from trading on 22 June 2020 due to a cross default triggered by the default of 2020 Notes as described below. In addition, a payment in respect of the 2022 Notes was due and payable on 26 September 2020 and has not been made by the Company within the applicable grace period, and consequently constitutes an additional event of default under the 2022 Notes.

On 22 June 2020, an event of default has occurred under the 2020 Notes due to the Company's failure to repay the outstanding principal amount of the 2020 Notes in the amount of USD165,114,400 (equivalent to approximately RMB1,077 million) due on 22 June 2020. The default on the 2020 Notes also triggered cross-defaults of certain debts of the Company amounting to approximately RMB1,846 million (collectively "**Cross-default Borrowings**") as at 31 December 2020.

On the occurrence of these cross defaults, the Company informed and commenced renegotiation of the terms of the Cross-default Borrowings with the relevant lenders for waiver on the cross defaults triggered. The relevant lenders of the Cross-default Borrowings had frequent communications with the Company and showed positive support on the Company. Up to the date of this announcement, the Company has not been rejected on the request for waiver for the cross defaults nor received any written notice from the lenders demanding for immediate repayment of the Cross-default Borrowings. Therefore, the Directors do not expect to receive any request from the lenders for demand for immediate repayment for the Cross-default Borrowings and consider that such cross defaults did not cause material adverse impact on the Group.

Notwithstanding the above, among the Cross-default Borrowings, the non-current borrowings have been reclassified as current liabilities as at 31 December 2020 pursuant to applicable accounting standards. The reclassification has been reflected in the annual condensed consolidated financial information for the year ended 31 December 2020 in this announcement. Save as disclosed above, as at the date of this announcement, to the knowledge of the Directors, the Company has not received any notice demanding immediate repayment of debts under other indebtedness of the Group.

In addition, the Group is currently under negotiation with an ad hoc committee formed by certain holders of the Existing Notes who held in aggregate more than 25% of the aggregate principal amount of the Existing Notes then outstanding for a proposed restructuring of the Existing Notes ("**Proposed Restructuring**"). Progress has been made with a number of major holders of the Existing Notes on the terms of a financial restructuring in respect of the Company together with its subsidiaries. The Company announced on 16 December 2020 that they intended to enter into with holders of the Existing Notes the Restructuring Support Agreement ("**RSA**") to support the Proposed Restructuring, which is expected to be implemented through a scheme of arrangement in the Cayman Islands (the "**Cayman Scheme**"). Details of the terms of the Proposed Restructuring and the RSA are set forth in the Company's announcement dated 16 December 2020.

On 22 March 2021, the Grand Court of the Cayman Islands (the "**Court**") has directed that a meeting of Scheme Creditors (the "**Cayman Scheme Meeting**") be convened for the purposes of considering and, if thought fit, approving the Cayman Scheme (with or without modification, addition or condition approved or imposed by the Court).The Cayman Scheme Meeting will be held at 7:00 p.m. on 4 May 2021 (Cayman Islands time), the equivalent time being 8:00 a.m. on 5 May 2021 (Hong Kong time). All Cayman Scheme creditors are requested to attend the Cayman Scheme Meeting at such place and time either in person, by a fully authorised representative (if a corporation) or by proxy. The Cayman Scheme will be subject to the subsequent approval and sanction of the Court. Details of the meetings are set forth in the Company's announcement dated 23 March 2021.

Gearing Ratio

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

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

The gearing ratios as at 31 December 2020 and 31 December 2019 are as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Total borrowings	**3,125,515**	3,243,357
Add: Lease liabilities	**27,981**	40,397
Less: Cash and cash equivalents	**(697,463)**	(783,178)
Restricted cash	**(77,616)**	(124,329)
Financial assets at fair value through profit or loss	**(23,377)**	–
Net debt	**2,355,040**	2,376,247
Total equity	**3,118,298**	3,706,463
Total capital	**5,473,338**	6,082,710
Gearing ratio	**43.03%**	39.07%

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 19.5% appreciation of RMB against the USD from 21 July 2005 to 31 December 2020. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 47.7% and 41.7% of the total revenue of the Group in 2019 and 2020, respectively.

Staff and Remuneration Policy

As at 31 December 2020, the total number of full-time employees employed by the Group was 2,820 (31 December 2019: 3,188). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2020:

On-site workers	1,753
Administrative	461
Engineering and technical support	382
Sales, marketing and after-sales services	86
Research and development	109
Company management	29
	2,820

Employee costs excluding the Directors' remuneration totalled RMB568.4 million.

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

The Company also ratified and adopted a Pre-IPO share option scheme on 28 February 2011. The Pre-IPO share option scheme commenced on 1 January 2011. During 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO share option scheme, have been granted. All Pre-IPO share options granted but not yet exercised expired on 1 January 2021.

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

BUSINESS REVIEW

In 2020, the COVID-19 epidemic continued to rage around the world, resulting in a severe impact on the global economy as well as a sharp drop in crude oil demand and dramatic fluctuation in oil prices. The significantly reduced investment in the global oil and gas industry and the deteriorated market environment posed unprecedented challenges to numerous participants in the global oil and gas industry, including the Company. In addition, the Company was experiencing a debt restructuring in 2020, and has experienced more severe tests than its industry peers.

Affected by the combined effects of the above factors, the Company's performance has declined in 2020. During the reporting period, the Company recorded a total revenue of RMB2,623 million, representing an approximately 28% decrease from the total revenue recorded in 2019. In particular, the performance of oilfield services as well as line pipe technology and services segments has plunged in 2020 due to the impact of overseas epidemic. Despite the impact from external market environment, the Company maintained stable operation in general. On the one hand, the Company stabilized its daily operation by reducing capital expenditures and costs and increasing efficiency. On the other hand, it increased the efforts for market expansion to prepare for future development. Meanwhile, the Company attached great importance to cash flow management, prioritizing the cooperations with customers with greater payment certainty, so that the Company's operations were less exposed to the impact of external environment.

Oilfield equipment manufacturing and services

During the reporting period, the oilfield equipment manufacturing and services segment generated a revenue of RMB1,307 million, reflecting a 21% decline compared to that in 2019. Affected by factors such as the epidemic and oil price fluctuations, oil and gas drilling activities have been slashed worldwide. As a consequence, the demand for oilfield equipment within the industry declined, which also affected the relevant business of the Company. However, compared with other large-scale drilling equipment, drill pipe was a daily consumable that requires regular replacement in oil and gas exploration and development activities. In addition, the OCTG coating can effectively extend the service life of the drilling tools and reduce the accident rate, thereby improving drilling efficiency and saving the overall costs for customers. Therefore, the Company's oilfield equipment business was able to preserve its strength in the general industry downturn. During the reporting period, the three OCTG coating plants in Russia were operated at full capacity. Among them, the newly commissioned plant in Orenburg, which commenced operation in 2019, delivered exceptional performance with revenue growth exceeding 100% in 2020. In the domestic market, although the Company focused on the high-end market, the low-price strategy conducted by some competitors led to the decline of the overall price level across the industry, exerting certain pressure on the profitability of the Company's domestic OCTG coating business. However, the Company adhered to high-end and customized market positioning, and actively explored new business areas such as applying OCTG coatings in gathering pipes, customized pipes and process piping in refineries. Such efforts have achieved preliminary success in both domestic and overseas markets.

Oilfield services

During the reporting period, the oilfield services segment recorded a total revenue of RMB684 million, representing a decrease of 47% compared to that in 2019. The global oil and gas industry experienced drastic fluctuations in 2020, and oil companies generally cut down their drilling investment. In particular, the overseas resurgent pandemic situation has caused the governments of many countries to suspend various economic activities for the purpose of epidemic prevention, adding to the difficulty for the oil and gas industry to resume production. Since the Company has years of deep engagement in overseas markets, the oil services business suffered a more significant slump in results compared to other segments of the Company. Facing the pressure of both reduced workload and falling prices, the Company tried its best to control the annual average utilization rate and the price of the rig fleet at acceptable levels, and maintained stable team as well as orderly production and operation. During the reporting period, the Company's several drilling and workover rigs continued normal operation with satisfactory overall performance, which were highly recognised by customers. While striving to execute existing contracts as scheduled and maintain the prices for existing contracts, the Company tried hard to bid for new opportunities. For example, the Company won the new contract for two drilling rigs with UkrGasVydobuvannya (UGV) in Ukraine, and thereby achieving seamless connection between new and old contracts. In addition, the Company proactively participated in the bidding of turnkey projects and realised stable operation of trading business. The Company also adopted a series of measures to reduce capital expenditures and to achieve higher efficiency with reduced costs. For instance, the Company currently only considers potential projects that can make use of the existing drilling rigs, and temporarily suspends the bidding for projects that require massive initial capital investment. The Company also disposed inefficient drilling rigs to increase cash inflows and optimized supply chain management to reduce procurement costs.

Line pipe technology and services

During the reporting period, the line pipe technology and services segment recorded a total revenue of RMB254 million, reflecting a decline of 30% compared to the that in 2019. In 2020, due to the impact of the epidemic, the implementation of some overseas pipeline coating projects was suspended, which has imposed certain pressure on the overall performance of the segment. Notwithstanding that, the Company firmly captured its core clients such as Baosteel in anti-corrosion pipeline coating and concrete-weighted coating business, and obtained a number of large-scale projects, including the Hong Kong LNG offshore pipeline project. Meanwhile, the Company achieved a major breakthrough in its cooperation with new customers such as Zhejiang Petroleum & Chemical, and obtained multiple orders including Yushan – Zhenhai transmission pipeline project, with considerable contract amounts. The pipeline inspection services progressed smoothly after the pandemic was brought under control in China in the second half of the year. The Company actively explored the market in Western China. In 2020, the pipeline inspection business won the bid and successfully executed four projects for PetroChina Western Pipeline, and laid a solid foundation for the future development in this regional market. In terms of technology, with improving inspection capabilities, the Company successively started the operation of internal magnetic flux leakage (MFL) inspection devices of multiple sizes in 2020, indicating that the Company succeeded in developing the second-generation electronic system of internal inspection devices and that the Company has completed its advancement towards providing high-end series of self-developed equipment step by step.

Offshore engineering services

In 2020, the offshore engineering services segment recorded a total revenue of RMB378 million, representing an increase of 7% compared to that in 2019. The segment focused on the offshore engineering services market in China and Southeast Asia, and actively expanded into the field of public infrastructure engineering. Since the establishment of the business, the Company has successfully executed a number of projects and built an outstanding track record as well as competitive advantages. During the reporting period, the offshore engineering segment successfully completed the phase I of the 135-kilometer offshore pipeline construction of the Bangladesh single-point mooring and double pipeline project, the most complicated overseas construction project undertaken by the Company. The Company set a number of high-efficiency construction records while ensuring the quality and safety of the project, which was highly recognised by the customer and other partners. Hilong completed the key parts of the project with only half of the planned time, freeing up more time for HILONG 106 to participate in subsequent market opportunities. At the same time, this segment also made a breakthrough in expanding beyond the oil and gas industry in 2020, securing more diversified business opportunities. The Company provided vessel leasing and operations-related services for the offshore wind power construction project of the Xiamen Branch of CCCC Third Harbor Engineering Co., Ltd. (中交第三航務工程局有限公司廈門分公司), with a total contract value of RMB233 million for a contract term of 17 months. The project commenced in July 2020 and was a milestone marking the successful entry of the Company's offshore engineering services into the offshore wind power construction market.

Research and development

The Company always attaches great importance to investing in technology R&D and the transformation of the R&D results. In 2020, all business segments of the Company have either established new R&D projects or achieved milestone results such as the product optimization and experimental research of 120S and 125S high steel-grade sour service drill pipe products, the research and product optimization of high-strength anti-corrosive drill pipes, the development of an information system for the manufacturing process of drilling products, the development of the powder-based OCTG coating materials applied in ultra-high temperature environment, the research on anti-corrosion coatings on the outer surface of pipes as well as the supporting coating process and equipment, the promotion and application of internal pipeline inspection devices in various sizes, the development of extended functions for the data processing and analysis system of internal pipeline inspection systems, the optimization design of the steel slag concrete-weighted coating of the offshore pipeline, and the research and development of anti-corrosion technology for pipe-in-pipe. The Company will continue to consolidate its technological advantages, adhere to the development strategy of technological innovation, and drive future development with technology.

OUTLOOK

In 2021, supported by multiple favorable factors including the effective control of the pandemic in China, the implementation of vaccination in overseas countries and the change of the U.S. president, the international oil prices have stabilized and rebounded, and the global oil and gas industry is expected to gradually recover. In terms of the domestic market, China has entered the third year in implementing the seven-year action plan for the oil and gas industry which spans from 2019 to 2025 and the domestic oil and gas exploration and development activities will remain active. The National Petroleum and Gas Pipe Network Group Co., Ltd. has fully taken over the domestic oil and gas pipeline infrastructure assets and officially commenced in-grid operation in 2020. In the future, it will also promote the construction of major oil and gas pipeline network in a practical manner. The Company, as a domestic and international leader in multiple oil and gas-related sectors, will benefit from the market opportunities arising from the stabilization of the global oil and gas industry and a new round of oil and gas development in China.

In terms of the domestic drill pipes market, in line with the country's increasing exploration of unconventional oil and gas resources such as shale oil and gas and coalbed methane, the Company will also focus on developing and promoting such products. The Company will also adopt differentiated marketing strategies for different customers to further increase market share. In terms of the overseas market, in the Russian market, our focus will be placed on following up with the core large-scale customers, increasing the efforts on promoting high-end drilling products and repairing services, developing new growth impetus and improving profitability. In the Middle Eastern market, we will always be committed to developing high-end markets, actively following up with the key customers and striving for more orders for high value-added products.

For the OCTG coating business, the Company will delve deeper into the potential of the domestic market, keep improving industry penetration and market coverage, as well as explore and develop new demands, such as the application of OCTG coatings to ground gathering pipes and coalbed methane production. In overseas markets, the Company will seize market opportunities in Russia and its surrounding regions. Starting from the R&D of coating materials, the Company will opt for diversification and differentiation to meet the individual needs of customers. In addition, the Company will also actively follow up the orders of the customized pipes such as bend pipes and fittings in the Middle Eastern market and promote the related business such as hardbanding coating services.

As oil prices gradually stabilize, the global oil and gas industry will resume investment and production activities, and the oil services industry will also be able to embrace new development opportunities. The Company will increase its market development efforts and seize every market opportunity to ensure and increase the utilization rate of its rig fleet. On the one hand, the Company will be committed to expanding new markets and new customers to achieve breakthroughs as soon as possible in China, Russia and the Middle Eastern markets such as Saudi Arabia and Libya. On the other hand, the Company will focus on strengthening customer stickiness, such as striving for follow-up cooperation opportunities with Shell and other mainstream customers in Oman, one of the overseas advantageous markets of the Company. In addition, the Company will continue developing the technical services business in the oil services segment, and plans to enter the market through the services such as drilling acceleration, well completion and oilfield environmental protection, so as to gradually reduce its dependence on the drilling and workover business.

The Company will grasp the major opportunities brought by the market-oriented reform of oil and gas pipeline network operations in China for the line pipe technology and services segment, and leverage on the Company's advantageous position in the domestic market over the years to focus on exploring the market opportunities brought by the new height in domestic oil and gas pipeline network construction. At the same time, the Company will continue to rely on core customers such as Baosteel to develop overseas business in the new international market environment. The Company is equipped with inspection devices integrated with data analysis system for its internal pipeline inspection service business, which features advanced technology and has now become a high-tech business with high growth. The team has secured a number of orders and potential projects to follow up, and will record considerable growth in 2021.

In offshore engineering services, the emphasis will be placed on capturing potential business opportunities from CNOOC's "seven-year action plan" and the offshore wind power industry. In terms of market regions, the focus will remain on the domestic, Southeast Asian and Middle Eastern markets.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the year ended 31 December 2020.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific enquiries to all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2020.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company, consisting of Mr. WONG Man Chung Francis, Mr. WANG Tao (王濤) and Ms. ZHANG Shuman, has reviewed the annual results for the year ended 31 December 2020 before the results were submitted to the Board for approval.

The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2020 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the year ended 31 December 2020.

DIVIDENDS

The Board resolved not to recommend any dividend for the year ended 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as shareholders of the Company to attend and vote at the AGM to be held on 18 June 2021, the register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 11 June 2021.

PUBLICATION OF ANNUAL RESULTS

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

The annual report for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and become available on the same websites in due course.

APPRECIATION

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

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

26 March 2021

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Jun and Mr. WANG Tao (汪濤); the non-executive directors are Ms. ZHANG Shuman, Dr. YANG Qingli and Mr. CAO Hongbo; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyan.