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Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,916.9 million, representing an increase of approximately 11.2% as compared with 2020.
- Gross profit was approximately RMB898.3 million, representing an increase of approximately 29.4% as compared with 2020. Gross profit margin was 30.8% in 2021, representing an increase of approximately 4.3% as compared with 2020.
- Profit for the year was approximately RMB47.6 million, as compared to the loss for the year of RMB298.7 million in 2020. Profit attributable to equity owners of the Company for the year was approximately RMB44.2 million, as compared to the loss attributable to equity owners of RMB298.8 million in 2020.
- Basic earnings per share was approximately RMB0.03, as compared to the basic losses per share of RMB0.2 in 2020.

The Board resolved not to recommend any dividend for the year ended 31 December 2021.

* *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 2021 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2021

	Note	**Year ended 31 December** **2021** ***RMB'000***	2020 *RMB'000*
Revenue	*3*	**2,916,922**	2,623,037
Cost of sales		**(2,018,603)**	(1,929,054)
Gross profit		**898,319**	693,983
Selling and marketing expenses		**(110,133)**	(119,944)
Administrative expenses		**(425,306)**	(398,803)
Net reversal of/(provision for) impairment losses on financial assets		**16,763**	(132,167)
Other income		**8,852**	–
Other gains/(losses) – net	*6*	**71,852**	(187,302)
Operating profit/(loss)		**460,347**	(144,233)
Finance income		**5,550**	13,685
Finance costs		**(323,337)**	(104,338)
Finance costs – net	*7*	**(317,787)**	(90,653)
Share of profit of investments accounted for using equity method		**768**	5,101
Profit/(loss)before income tax		**143,328**	(229,785)
Income tax expense	*8*	**(95,733)**	(68,912)
Profit/(loss) for the year		**47,595**	(298,697)
Profit/(loss)attributable to:			
Equity owners of the Company		**44,249**	(298,806)
Non-controlling interests		**3,346**	109
		47,595	(298,697)
Earnings/(losses) per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
– Basic earnings/(losses) per share	*9*	**0.0261**	(0.1761)
– Diluted earnings/(losses) per share	*9*	**0.0261**	(0.1761)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Profit/(loss) for the year	**47,595**	(298,697)
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
Changes in the fair value of financial assets at fair value through other comprehensive income	**2,375**	681
Currency translation differences	**(105,504)**	(290,149)
Other comprehensive loss for the year, net of tax	**(103,129)**	(289,468)
Total comprehensive loss for the year	**(55,534)**	(588,165)
Attributable to:		
Equity owners of the Company	**(58,993)**	(588,469)
Non-controlling interests	**3,459**	304
	(55,534)	(588,165)

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,381,624**	2,619,526
Right-of-use assets		**51,223**	105,441
Intangible assets		**210,219**	239,676
Investments accounted for using equity method		**93,231**	50,888
Deferred income tax assets		**158,224**	190,692
Other long-term assets		**50,778**	70,816
		2,945,299	3,277,039
Current assets			
Inventories		**1,050,881**	1,001,255
Contract assets		**131,063**	160,886
Financial assets at fair value through profit or loss		**–**	23,377
Financial assets at fair value through other comprehensive income		**132,897**	89,629
Derivative financial instruments		**1,499**	–
Trade and other receivables	*4*	**1,663,545**	1,682,031
Prepayments		**429,371**	336,713
Current income tax recoverable		**28,067**	24,348
Restricted cash		**60,379**	77,616
Cash and cash equivalents		**628,805**	697,463
		4,126,507	4,093,318
Total assets		**7,071,806**	7,370,357
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*11*	**141,976**	141,976
Other reserves		**1,301,869**	1,289,746
Currency translation differences		**(435,273)**	(329,656)
Retained earnings		**2,006,907**	1,972,406
		3,015,479	3,074,472
Non-controlling interests		**27,348**	43,826
Total equity		**3,042,827**	3,118,298

CONSOLIDATED BALANCE SHEET (CONT.)

As at 31 December 2021

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**2,432,509**	23,674
Lease liabilities		**11,655**	17,775
Deferred income tax liabilities		**36,345**	37,815
Deferred revenue		**44,350**	48,289
		2,524,859	127,553
Current liabilities			
Trade and other payables	*5*	**736,348**	906,793
Contract liabilities		**109,673**	65,742
Current income tax liabilities		**44,796**	39,865
Borrowings		**607,352**	3,101,841
Lease liabilities		**5,892**	10,206
Deferred revenue		**59**	59
		1,504,120	4,124,506
Total liabilities		**4,028,979**	4,252,059
Total equity and liabilities		**7,071,806**	7,370,357

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Capital and reserves attributable to equity owners						
	Ordinary shares *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Cumulative Translation differences *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 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
As at 1 January 2021	**141,976**	**1,289,746**	**1,972,406**	**(329,656)**	**3,074,472**	**43,826**	**3,118,298**
Profit for the year	**–**	**–**	**44,249**	**–**	**44,249**	**3,346**	**47,595**
Other comprehensive gains/(losses)	**–**	**2,375**	**–**	**(105,617)**	**(103,242)**	**113**	**(103,129)**
Total comprehensive income/(loss) for the year	**–**	**2,375**	**44,249**	**(105,617)**	**(58,993)**	**3,459**	**(55,534)**
Appropriation to statutory reserve	**–**	**9,748**	**(9,748)**	**–**	**–**	**–**	**–**
Dividends declared to non-controlling interests of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(20,297)**	**(20,297)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**360**	**360**
As at 31 December 2021	**141,976**	**1,301,869**	**2,006,907**	**(435,273)**	**3,015,479**	**27,348**	**3,042,827**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

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.

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 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.

		Effective for annual periods beginning on or after
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
AG 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

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 2021 and 2020 are set out as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Oilfield equipment manufacturing and services	**1,204,759**	1,307,131
Line pipe technology and services	**388,727**	253,839
Oilfield services	**845,282**	683,782
Offshore engineering services	**478,154**	378,285
	2,916,922	2,623,037

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2021 is as follows:

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*
	Year ended 31 December 2021				
Revenue					
Segment revenue	1,234,926	493,788	845,282	478,154	3,052,150
Inter-segment sales	(30,167)	(105,061)	–	–	(135,228)
Revenue from external customers	1,204,759	388,727	845,282	478,154	2,916,922
Revenue from contracts with customers:					
– at a point in time	715,086	62,703	172,763	–	950,552
– over time	441,847	321,701	672,519	333,760	1,769,827
	1,156,933	384,404	845,282	333,760	2,720,379
Revenue from other sources:					
– rental income	47,826	4,323	–	144,394	196,543
	1,204,759	388,727	845,282	478,154	2,916,922
Results					
Segment gross profit	437,662	134,553	293,912	32,192	898,319
Segment profit	141,282	120,700	229,735	29,473	521,190
Corporate overheads					(60,843)
Operating profit					460,347
Finance income					5,550
Finance costs					(323,337)
Share of profit of investments accounted for using equity method					768
Profit before income tax					143,328
Other information					
Depreciation of property, plant and equipment	81,142	27,929	110,919	47,508	267,498
Depreciation of right-of-use assets	4,045	1,162	3,391	2,977	11,575
Amortisation of intangible assets	6,864	661	271	15	7,811
Capital expenditure	59,936	258	64,568	67,825	192,587

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*
	As at 31 December 2021				
Segment assets	2,988,768	714,445	1,891,543	1,383,819	6,978,575
Investments accounted for using equity method					93,231
Total assets					7,071,806
Total liabilities (a)	3,237,325	345,231	378,381	68,042	4,028,979

(a) As at 31 December 2021, the Senior Notes of USD377,345,000 (31 December 2020: 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 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	3,486,675	288,157	446,396	30,831	4,252,059

(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 and services were provided:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
The PRC	**854,339**	487,433
Russia, Central Asia and East Europe	**757,464**	826,858
South Asia and Southeast Asia	**420,130**	504,095
North and South America	**363,518**	230,057
Middle East	**333,663**	432,770
Africa	**179,368**	141,824
Others	**8,440**	–
	2,916,922	2,623,037

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	
	2021	2020
	RMB'000	*RMB'000*
The PRC	**1,469,110**	1,601,893
Middle East	**344,191**	401,086
North and South America	**264,628**	343,388
Russia, Central Asia and East Europe	**226,418**	212,180
South Asia and Southeast Asia	**201,834**	239,066
Africa	**136,885**	167,030
	2,643,066	2,964,643

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	
	2021	2020
	RMB'000	*RMB'000*
The PRC	**113,591**	51,290
Russia, Central Asia and East Europe	**59,057**	2,705
Africa	**12,974**	599
Middle East	**2,801**	19,882
North and South America	**2,645**	24,916
South Asia and Southeast Asia	**1,519**	1,611
	192,587	101,003

(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 2021** ***RMB'000***	31 December 2020 *RMB'000*
Current contract assets relating to offshore engineering and inspection services	*(i)*	**131,346**	161,595
Loss allowance		**(283)**	(709)
Total contract assets		**131,063**	160,886
Non-current asset recognised for costs incurred to fulfil a contract	*(iii)*	**25,919**	43,193
Contract liabilities – Sales and service contracts	*(i),(ii)*	**109,673**	65,742

(i) Significant changes in contract assets and liabilities

Contract assets are recorded for the provision of offshore engineering services and inspection services. The Group also recognised a loss allowance for contract assets as at 31 December 2021.

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 increase in contract liabilities as at 31 December 2021 was mainly due to the increase 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 2021 ***RMB'000***	31 December 2020 *RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the period		
– Sales of goods	**34,920**	80,459
– Provision of service	**30,822**	56,958
	65,742	137,417

Contract liability that is non-current, with amount of RMB15,731,000 as at 31 December 2021 (31 December 2020: RMB24,904,000), 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.

	2021	2020
	RMB'000	*RMB'000*
Asset recognised from costs incurred to fulfil oilfield service contracts as at 31 December	**25,919**	43,193
Amortisation recognised as cost of providing services during the period	**17,274**	24,933

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	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables (i)	**1,526,001**	1,648,449
– Due from related parties	**10,512**	10,102
– Due from third parties	**1,515,489**	1,638,347
Less: provision for loss allowance of receivables (ii)	**(129,166)**	(204,516)
Trade receivables – net	**1,396,835**	1,443,933
Other receivables (iii)	**263,964**	235,352
Dividend receivables	**2,746**	2,746
Trade and other receivables – net	**1,663,545**	1,682,031

As at 31 December 2021 and 2020, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB1,694,000 (31 December 2020: RMB4,118,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2021.

As at 31 December 2021 and 2020, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
– USD	**753,417**	836,873
– RMB	**471,748**	466,293
– RUB	**320,683**	254,408
– NGN	**37,918**	30,602
– AED	**36,755**	75,353
– CAD	**32,899**	6,172
– PEN	**3,511**	5,135
– ALL	**2,907**	27
– PKR	**2,136**	5,483
– MYR	**282**	199
– KZT	**–**	531
– Other currencies	**1,289**	955
	1,663,545	1,682,031

* RUB – Russian Rouble, NGN – Nigerian Naira, AED – the United Arab Emirates Dirham, CAD – Canadian Dollar, PEN – Peru, ALL – Albanian Lek, PKR – Pakistani rupee, MYR – Malaysian ringgit, KZT – Kazakhstan tenge, HKD – Hong Kong Dollar, 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 2021 and 2020 was as follows:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**703,557**	617,547
– Over 90 days and within 180 days	**211,797**	154,954
– Over 180 days and within 360 days	**163,731**	243,305
– Over 360 days and within 720 days	**191,528**	337,770
– Over 720 days	**255,388**	294,873
	1,526,001	1,648,449

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

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
As at 1 January	**(204,516)**	(105,269)
Provision for receivables loss allowance	**(54,787)**	(131,994)
Reversal of impairment on individually doubtful trade receivables	**76,868**	–
Write-off of loss allowance	**53,269**	32,747
As at 31 December	**(129,166)**	(204,516)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Due from related parties	**123,532**	96,196
Deposits	**56,354**	64,699
Staff advances	**15,970**	20,872
Value added tax refund	**8,169**	7,367
Others	**59,939**	46,218
	263,964	235,352

5 TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Bills payable	**8,426**	11,017
Trade payables:	**455,066**	444,289
– Due to third parties	**435,402**	426,206
– Due to related parties	**19,664**	18,083
Other payables:	**69,440**	167,110
– Due to related parties (i)	**9,017**	26,331
– Due to third parties (ii)	**60,423**	140,779
Staff salaries and welfare payables	**33,680**	31,934
Interest payables	**35,067**	169,401
Accrued taxes other than income tax	**116,293**	59,538
Dividends payable	**10,496**	10,496
Other liabilities	**7,880**	13,008
	736,348	906,793

(i) As at 31 December 2021 and 2020, 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 2021 and 2020, 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 2021 and 2020, all trade and other payables of the Group were non-interest bearing, and their carrying amounts, excluding the interest payables, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their fair values due to their short maturities.

As at 31 December 2021 and 2020, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
– RMB	**433,788**	536,096
– USD	**185,532**	300,352
– RUB	**67,063**	26,427
– AED	**21,063**	30,304
– PKR	**7,852**	3,802
– ETB	**6,968**	1,815
– OMR	**4,144**	158
– NGN	**3,460**	3,372
– ALL	**2,781**	1,656
– UAH	**2,485**	1,432
– CAD	**454**	103
– MYR	**85**	69
– KZT	**–**	1,150
– Other currencies	**673**	57
	736,348	906,793

(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	
	2021	2020
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**282,231**	287,653
– Over 90 days and within 180 days	**164,173**	133,833
– Over 180 days and within 360 days	**2,110**	16,630
– Over 360 days and within 720 days	**3,210**	4,524
– Over 720 days	**3,342**	1,649
	455,066	444,289

6 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Net gains on disposal of subsidiaries (a)	**91,882**	–
Insurance indemnity	**50,026**	–
Government grants	**–**	1,844
Gains/(losses) on disposal of property, plant and equipment – net	**6,955**	(6,589)
Exchange losses	**(76,746)**	(175,487)
Others	**(265)**	(7,070)
	71,852	(187,302)

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

On 25 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. transferred its 70% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd. to a third party at a consideration of RMB103,480,000. The Group recorded a gain of approximately RMB58 million from the disposal. All of the consideration has been received in 2021. After the disposal, the Group held only 30% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd, which becomes an associate of the Group. The Group remeasured the 30% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd and recorded a gain of approximately RMB27 million.

7 FINANCE COSTS – NET

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Finance income:		
– Interest income derived from bank deposits	**3,612**	5,295
– Fair value gains on financial assets at FVPL	**439**	377
– Fair value gains on cross currency swap	**1,499**	–
– Fair value gains on foreign exchange forward contracts	**–**	8,013
	5,550	13,685
Finance costs:		
– Interest expense on Senior Notes and other borrowings	**(272,046)**	(261,807)
– Issuance cost of the 2024 Notes	**(107,139)**	–
– Interest expense on lease liabilities	**(888)**	(1,637)
– Exchange gains	**56,736**	159,106
	(323,337)	(104,338)
Finance costs – net	**(317,787)**	(90,653)

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current income tax	**60,804**	62,404
Deferred income tax	**34,929**	6,508
Income tax expense	**95,733**	68,912

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	
	2021	2020
	RMB'000	*RMB'000*
Profit/(loss)before tax	**143,328**	(229,785)
Tax calculated at statutory tax rates applicable to each group entity	**52,729**	(20,238)
Tax effect of:		
Expenses not deductible for tax purpose	**(9,608)**	(5,830)
Additional deduction for research and development expenses (b)	**(9,737)**	(7,012)
Tax effect of reduced tax rate	**205**	–
Utilisation of previously unrecognised tax losses	**(11,174)**	(10,114)
Tax losses of subsidiaries not recognised	**73,318**	112,106
Tax charge	**95,733**	68,912

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 2021 and 2020.

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 2021, all the earnings generated by the Company's wholly-owned PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB5,473,000 have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2021. While 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 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 2021, deferred income tax liabilities of RMB80,169,000 (31 December 2020: RMB74,696,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,603,380,000 (31 December 2020: RMB1,493,920,000).

(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	
	2021	2020
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanxi Hilong Oil Technology Co., Ltd.*	**15%**	15%
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.*	**15%**	25%
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 2021 to 2023.

* 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 2021 to 2023.

* Shanxi Hilong Oil 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 2019 to 2021, and the qualification is in the process of renewal.

* Jiangsu Tube-Cote Shuguang 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 2021 to 2023.

* 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 2021 to 2023.

* 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 2021 to 2023.

* Sichuan Hilong Petroleum Technology Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2021 to 2023.

* 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 2021 to 2023.

* 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 2021 to 2023.

* 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 2021 to 2023.

* 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, and the qualification is in the process of renewal.

* 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, and the qualification is in the process of renewal.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2021 and 2020.

(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 100% of the actual research and development expenses incurred from 1 January 2021.

9 EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share

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

	Year ended 31 December	
	2021	2020
Profit/(loss)attributable to equity owners of the Company *(RMB'000)*	**44,249**	(298,806)
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic earnings/(losses) per share *(RMB per share)*	**0.0261**	(0.1761)

Diluted earnings/(losses) per share

Diluted earnings/(losses) 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 2021, there were 15,350,700 (31 December 2020: 15,350,700) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2021 and 31 December 2020, as the average market share price of the ordinary shares during the years was lower than the exercise price, the impact on earnings/(losses) per share was anti-dilutive.

10 DIVIDENDS

The Directors have determined that no dividend will be proposed for the years ended 31 December 2021 and 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.

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 2020 and 31 December 2021	1,696,438,600	169,643,860	141,975,506

12 EVENTS AFTER THE BALANCE SHEET DATE

The current geopolitical tensions between Russia and Ukraine, alongside the imposition of international sanctions, have a pervasive economic impact, not only on businesses within Russia and Ukraine, but also globally where businesses engage in economic activities that might be affected by the recent developments. The Group will pay close attention to this fluid situation and take proactive measures to mitigate the potential negative impact on the Group's business performance in 2022.

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			
	2021		2020	
	RMB'000	***%***	*RMB'000*	*%*
Oilfield equipment manufacturing and services				
– Drill pipes	**753,315**	**25.8**	834,424	31.8
– Oil country tubular goods ("**OCTG**") coating services	**310,305**	**10.6**	282,832	10.8
– Drill pipe components	**30,679**	**1.1**	39,224	1.5
– Hardbanding	**24,587**	**0.8**	13,064	0.5
– Others	**85,873**	**2.9**	137,587	5.2
Subtotal	**1,204,759**	**41.2**	1,307,131	49.8
Line pipe technology and services				
– OCTG coating materials	**14,082**	**0.5**	16,321	0.6
– Oil and gas line pipe coating materials	**6,118**	**0.2**	4,150	0.2
– Oil and gas line pipe coating services	**168,566**	**5.8**	90,286	3.4
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**11,587**	**0.4**	11,137	0.4
– Concrete Weighted Coating ("**CWC**") services	**112,471**	**3.9**	79,974	3.0
– Pipeline inspection services	**75,903**	**2.6**	51,971	2.0
Subtotal	**388,727**	**13.4**	253,839	9.6
Oilfield services	**845,282**	**29.0**	683,782	26.1
Offshore engineering services	**478,154**	**16.4**	378,285	14.5
Total revenue	**2,916,922**	**100.0**	2,623,037	100.0

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

	Year ended 31 December			
	2021		2020	
	RMB'000	*%*	*RMB'000*	*%*
The PRC	**854,339**	**29.3**	487,433	18.6
Russia, Central Asia and East Europe	**757,464**	**26.0**	826,858	31.5
South Asia and Southeast Asia	**420,130**	**14.4**	504,095	19.2
North and South America	**363,518**	**12.5**	230,057	8.8
Middle East	**333,663**	**11.4**	432,770	16.5
Africa	**179,368**	**6.1**	141,824	5.4
Others	**8,440**	**0.3**	–	–
Total	**2,916,922**	**100.0**	2,623,037	100.0

Revenue increased by RMB293.9 million, or 11.2%, from RMB2,623.0 million in 2020 to RMB2,916.9 million in 2021. Such increase was mainly due to the increase in revenue from oilfield services segment and line pipe technology and services segment, and was partly offset by the decrease in revenue from oilfield equipment manufacturing and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment decreased by RMB102.3 million, or 7.8%, from RMB1,307.1 million in 2020 to RMB1,204.8 million in 2021. Such decrease primarily reflected a decrease in revenue derived from drill pipes sales and drill pipes rental business.

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

	Year ended 31 December	
	2021	2020
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**30,719**	36,791
– unit price *(RMB/tonne)*	**19,259**	20,903
Subtotal *(RMB'000)*	**591,617**	769,041
– The PRC market		
– volume *(tonnes)*	**10,502**	3,998
– unit price *(RMB/tonne)*	**15,397**	16,354
Subtotal *(RMB'000)*	**161,698**	65,383
Total *(RMB'000)*	**753,315**	834,424

Revenue from sales of drill pipes in the international market decreased by RMB177.4 million, or 23.1%, from RMB769.0 million in 2020 to RMB591.6 million in 2021. The decrease primarily reflected a decrease of 16.5% in the volume of drill pipes sold from 36,791 tonnes in 2020 to 30,719 tonnes in 2021. Such decrease in the sales volume reflected the delayed demands by customers in overseas market as a consequence of the outbreak of COVID-19.

Revenue from sales of drill pipes in the PRC market increased by RMB96.3 million, or 147.3%, from RMB65.4 million in 2020 to RMB161.7 million in 2021. The increase primarily reflected a 162.7% increase in the volume of drill pipes sold in the PRC market from 3,998 tonnes in 2020 to 10,502 tonnes in 2021, and to a lesser extent, a 5.9% decrease in the average selling price sold in the PRC market from RMB16,354 per tonne in 2020 to RMB15,397 per tonne in 2021. The increase in the sales volume primarily reflected that the Company put more emphasis on cooperation with customers in PRC market resulting from the recovery of certain oil and gas companies in 2021. While the decrease in average selling price primarily reflected the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group decreased in 2021 compared to that in 2020.

Revenue from OCTG coating services increased by RMB27.5 million, or 9.7%, from RMB282.8 million in 2020 to RMB310.3 million in 2021. The increase was mainly due to the recovery of certain oil and gas companies in 2021.

Line pipe technology and services. Revenue from line pipe technology and services segment increased by RMB134.9 million, or 53.1%, from RMB253.8 million in 2020 to RMB388.7 million in 2021. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating services and concrete weighted coating (CWC) services. The increase in revenue derived from oil and gas line pipe coating services and CWC services was mainly reflected the Company's ability to undertake more projects and develop new customers.

Oilfield services. Revenue from the oilfield services segment increased by RMB161.5 million, or 23.6%, from RMB683.8 million in 2020 to RMB845.3 million in 2021. Such increase was mainly reflected the recovery of the utilization rate of drilling rigs in 2021 as compared to 2020.

Offshore engineering services. Revenue from the offshore engineering service segment in 2021 primarily represented the revenue of RMB259.5 million from the Bengal Project and RMB129.4 million from the offshore wind power construction project.

Cost of Sales/Services

Cost of sales/services increased by RMB89.5 million, or 4.6%, from RMB1,929.1 million in 2020 to RMB2,018.6 million in 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB204.3 million, or 29.4%, from RMB694.0 million in 2020 to RMB898.3 million in 2021. Gross profit margin was 30.8% in 2021, increased by 4.3% from that in 2020.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB9.8 million, or 8.2%, from RMB119.9 million in 2020 to RMB110.1 million in 2021. These expenses, amounting to 3.8% of revenue in 2021, were lower than 4.6% in 2020.

Administrative Expenses

Administrative expenses increased by RMB26.5 million, or 6.6%, from RMB398.8 million in 2020 to RMB425.3 million in 2021. Such increase primarily reflected the increase in consulting expenses and research and development expenses.

Other Gains/(Losses) – Net

The Group recognised net gain of RMB71.9 million in 2021 and net loss of RMB187.3 million in 2020. The net gain recognised in 2021 reflected the proceeds of 91.8 million from disposal of subsidiaries and the proceeds of 50.0 million from insurance indemnity, partly offset by an exchange loss of RMB76.7 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 loss recognised in 2020 reflected an exchange loss of RMB175.5 million from the operating activities as a combined results of the depreciation of the Ruble, USD and HKD..

Finance Costs – Net

Finance costs – net increased by RMB227.2 million, or 250.8%, from RMB90.6 million in 2020 to RMB317.8 million in 2021. Such increase primarily reflected (i) the interest expense on Senior Notes and other borrowing and the issuance cost of the 2024 Notes from RMB261.8 million in 2020 to RMB379.2 million in 2021, (ii) an exchange gain of RMB56.7 million from the financing activities resulting from the depreciation of USD, while in 2020 the exchange gain was RMB159.1 million from the financing activities resulting from the depreciation of USD.

Profit before Income Tax

As a result of the foregoing, the Group recognised losses before income tax of RMB229.8 million in 2020 and profit before income tax of RMB143.3 million in 2021.

Income Tax Expense

The Group recognised income tax expense of RMB68.9 million in 2020 and RMB95.7 million in 2021. Effective tax rate was approximately –30.0% in 2020 and 66.8% in 2021, the increase of effective tax rate mainly reflected (i) the unbalanced distribution of profit among the Group's subsidiaries and (ii) the increase of tax losses of subsidiaries not recognised.

Profit for the year attributable to equity owners of the Company

As a result of the foregoing, the Group recognised loss for the period attributable to equity owners of the Company of RMB298.8 million in 2020 and profit for the period attributable to equity owners of the Company of RMB44.2 million in 2021.

Inventories

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

	As at/for the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Inventory	**1,050,881**	1,001,255
Turnover days of inventory (in days)[1]	**186**	177

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 366 and 365 for each of the years ended 31 December 2020 and 2021. 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 2020 to 31 December 2021 reflected on the increasing reserve for new orders in overseas market.

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	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables		
– Due from third parties	**1,515,489**	1,638,347
– Due from related parties	**10,512**	10,102
– Less: Provision for impairment of receivables	**(129,166)**	(204,516)
Trade receivables – net	**1,396,835**	1,443,933
Other receivables		
– Due from third parties	**140,432**	139,156
– Due from related parties	**123,532**	96,196
Other receivables	**263,964**	235,352
Dividend receivables	**2,746**	2,746
Total	**1,663,545**	1,682,031

The trade receivables of RMB1,694,000 (31 December 2020: RMB4,118,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2021.

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	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables, net		
– Within 90 days	**702,057**	614,800
– Over 90 days and within 180 days	**211,797**	154,954
– Over 180 days and within 360 days	**157,964**	237,912
– Over 360 days and within 720 days	**163,462**	305,019
– Over 720 days	**161,555**	131,248
	1,396,835	1,443,933
Turnover days of trade receivables, net(1)	**178**	246

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 366 and 365 for each of the years ended 31 December 2020 and 2021. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

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

	Year ended 31 December	
	2021	2020
As at 1 January	**204,516**	105,269
Provision for receivables loss allowance	**54,787**	131,994
Reversal for loss allowance on individually doubtful trade receivables	**(76,868)**	–
Write-off of loss allowance	**(53,269)**	(32,747)
As at 31 December	**129,166**	204,516

The decrease in turnover days of trade receivables from 246 days as at 31 December 2020 to 178 days as at 31 December 2021 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was more active and accelerated in 2021.

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	
	2021	2020
	RMB'000	*RMB'000*
Bills payable	**8,426**	11,017
Trade payables		
– Due to related parties	**19,664**	18,083
– Due to third parties	**435,402**	426,206
Other payables		
– Due to related parties	**9,017**	26,331
– Due to third parties	**60,423**	140,779
Staff salaries and welfare payables	**33,680**	31,934
Interest payables	**35,067**	169,401
Accrued taxes other than income tax	**116,293**	59,538
Dividends payable	**10,496**	10,496
Other liabilities	**7,880**	13,008
	736,348	906,793

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	
	2021	2020
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**282,231**	287,653
– Over 90 days and within 180 days	**164,173**	133,833
– Over 180 days and within 360 days	**2,110**	16,630
– Over 360 days and within 720 days	**3,210**	4,524
– Over 720 days	**3,342**	1,649
	455,066	444,289
Turnover days of trade payables(1)	**81**	105

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 366 and 365 for each of the years ended 31 December 2020 and 2021. 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	
	2021	2020
	RMB'000	*RMB'000*
Net cash generated from operating activities	**453,815**	20,530
Net cash used in investing activities	**(23,550)**	(24,755)
Net cash used in financing activities	**(492,445)**	(56,618)
Net decrease in cash and cash equivalents	**(62,180)**	(60,843)
Exchange losses on cash and cash equivalents	**(6,478)**	(24,872)
Cash and cash equivalents at beginning of the year	**697,463**	783,178
Cash and cash equivalents at end of the year	**628,805**	697,463

As at 31 December 2021, cash and cash equivalents are mainly in RMB, USD, RUB, PKR and CAD.

Operating Activities

Net cash generated from operating activities in 2021 was RMB453.8 million, representing cash generated from operation of RMB516.2 million, offset by the income tax payment of RMB62.4 million.

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.

Investing Activities

Net cash used in investing activities in 2021 was RMB23.6 million, primarily reflecting payment of RMB139.9 million for the purchase of property, plant and equipment, partially offset by (i) proceeds of RMB106.5 million from disposal of subsidiaries; and (ii) proceeds of RMB15.5 million from disposal of property, plant and equipment.

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.

Financing Activities

Net cash used in financing activities in 2021 was RMB492.4 million, primarily reflecting (i) the repayment of borrowing of RMB738.3 million, (ii) the interest payment and the 2024 Notes issuance cost payment of RMB330.9 million, (iii) the payment of acquisition of non-controlling interests of RMB15.8 million, and (iv) the lease payment of RMB10.7 million, partially offset by proceeds of RMB604.6 million from borrowings.

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.

Capital Expenditures

Capital expenditures were RMB101.0 million and RMB192.6 million in 2020 and 2021, respectively. The increase in capital expenditures in 2021 was mainly due to the increasing maintenance capital expenditures of Hilong 106 vessel and the recovery of overseas business in the oilfield services segment.

Indebtedness

As at 31 December 2021, the outstanding indebtedness of RMB3,039.9 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	
	2021	2020
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – secured	**162,162**	25,764
2024 Notes – secured	**2,347,987**	–
Less: Current portion of non-current borrowings – secured	**(77,640)**	(2,090)
	2,432,509	23,674
Current		
Bank borrowings – secured	**529,712**	157,145
Bank borrowings – unsecured	**–**	19,352
2020 Notes	**–**	1,077,352
Cross-default Borrowings	**–**	1,845,902
Current portion of non-current borrowings – secured	**77,640**	2,090
	607,352	3,101,841
	3,039,861	3,125,515

As at 31 December 2021, bank borrowings of RMB2,917.5 million were obtained at fixed rate (31 December 2020: RMB2,962.3 million).

The bank borrowings of RMB13.5 million (31 December 2020: RMB47.5 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB4.1 million as at 31 December 2021 (31 December 2020: RMB2.4 million).

The borrowings of RMB30,704,000 (31 December 2020: RMB12,640,000) from financial institution were secured by trade receivables of RMB1,694,000 (31 December 2020: RMB4,118,000) of the Group as at 31 December 2021.

The bank borrowings of RMB104,784,000 (31 December 2020: RMB70,969,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 31 December 2021.

In 2018, Hilong Oil Service Co., Ltd. ("**Hilong Oil Service**") entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 31 December 2021, USD33,545,000 were drawn down, out of which USD13,860,000 had been repaid in past years and 2021. The remaining principals will be repayable from 2022 to 2025.

References are made to the 2020 annual report and 2021 interim report of the Company in relation to the Debt Restructuring. On 20 May 2021, the Company announced that the Debt Restructuring was completed on 18 May 2021, the Existing Notes had been cancelled and the new notes representing the USD379,135,000 9.75% senior secured notes due 2024 ("**2024 Notes**") had been issued by the Company. In connection with the 2024 Notes, the Company pledged certain drilling rigs as securities. The Company further announced that the 2024 Notes had been listed on the Singapore Exchange Securities Trading Limited on 20 May 2021. Accordingly, the Company made an application to the Stock Exchange for the withdrawal of the listing of the 2022 Notes and the 2022 Notes had been delisted with effect from 27 May 2021. As at 31 December 2021, there were no Existing Notes in issue.

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 2021 and 31 December 2020 are as follows:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Total borrowings	**3,039,861**	3,125,515
Add: Lease liabilities	**17,547**	27,981
Less: Cash and cash equivalents	**(628,805)**	(697,463)
Restricted cash	**(60,379)**	(77,616)
Financial assets at fair value through profit or loss	**–**	(23,377)
Net debt	**2,368,224**	2,355,040
Total equity	**3,042,827**	3,118,298
Total capital	**5,411,051**	5,473,338
Gearing ratio	**43.77%**	43.03%

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 21.3% appreciation of RMB against the USD from 21 July 2005 to 31 December 2021. 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 41.7% and 40.6% of the total revenue of the Group in 2020 and 2021, respectively.

Staff and Remuneration Policy

As at 31 December 2021, the total number of full-time employees employed by the Group was 2,920 (31 December 2020: 2,820). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2021:

On-site workers	1,832
Administrative	441
Engineering and technical support	429
Research and development	101
Sales, marketing and after-sales services	89
Company management	28
	2,920

Employee costs excluding the Directors' remuneration totaled RMB574.7 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 adopted a post-IPO share option scheme on 10 May 2013. On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this announcement, none of the share options granted has been exercised.

BUSINESS REVIEW

In 2021, international crude oil prices that were once suppressed by COVID-19 rose substantially due to the global economic recovery and the serious supply shortage of crude oil; the workload and orders of the oil and gas industry also increased. However, because of the constraints of multiple factors, including the ever-changing pandemic, the fluctuations in the international oil and gas industry, the rising prices of bulk raw materials and the accelerated transformation of the energy industry, the overall recovery of the global oil and gas industry continues to face a multitude of challenges.

Despite the adverse external market environment, the Company's overall operations in 2021 remained stable. Driven by a number of positive factors, Hilong's performance improved in 2021. During the reporting period, Hilong recorded a total revenue of RMB2,917 million, representing an increase of about 11% compared with that of 2020. Supported by the gradual pick-up of orders, the three sectors oil field services, line pipe technology and services and offshore engineering services achieved revenue growth in varying degrees. While vigorously exploring the market and actively striving for orders, the Company has taken various measures to reduce capital expenditure, reduce cost and increase efficiency by refining management throughout the Group. The Company also attaches great importance to cash flow management, takes active accounts receivable and inventory management measures, and gives priority to cooperating with customers with good collection records, so as to maintain stable operation in a complex market environment. During the reporting period, Hilong successfully completed its debt restructuring, which provided a relatively loose external environment for business remodeling and development in the next few years.

Oilfield Equipment Manufacturing and Services

During the reporting period, the revenue of the oilfield equipment manufacturing and services segment was RMB1,205 million, representing a year-on-year decrease of 8%. Influenced by numerous factors, including the persistent COVID-19 in the world, the fluctuation in the oil and gas industry and the trend of developing new energy, upstream customers were still cautious in investing and purchasing oilfield equipment, including drilling tool and coatings. The market competition remained fierce, and the Company also proactively selected its customers. Ordinary drill pipes mainly satisfied the needs of high-quality customers, with a focus on cash flow management. Customers are price sensitive and prefer to purchase basic products and services. At the same time, in order to survive, some competitors strive for customers by lowering the bidding price, resulting in the decline of the overall price level of the market. In addition, the obvious rise of raw material prices and transportation costs and the extension of transportation cycle caused by the pandemic have limited the profitability of Hilong's oilfield equipment in the short term. Over the years, Hilong's drill pipes and OCTG coating business have focused on providing customized high-end products and services to high-end customers services and high-end customers, and always adhered to the development strategy with quality and continuous technological innovation as the core driving force. In order to adapt to the current market environment, the Company also actively adjusts its strategy. While adhering to high-end customers, high-end products and customized routes, the Company will actively explore new business fields such as OCTG coating for ground gathering and transmission pipelines, special-shaped components, so as to meet the needs of different customers. At present, it has achieved initial results in domestic and foreign markets. During the reporting period, the Company obtained the supply contract of anti-sulfurated drill pipes from ADNOC Drilling Company PJSC ("**ADNOC Drilling**") in the United Arab Emirates, and we will provide high-end drill pipes for land drilling rigs, elevating drilling platforms and island drilling rigs operated by ADNOC Drilling. The total consideration of the supply contract is approximately USD69 million.

Oilfield Services

During the reporting period, in terms of the oil field services segment, we recorded a total revenue of RMB845 million, representing a year-on-year increase of 24%. In 2021, with the gradual advancement of global vaccination, the oil price showed a significant upward trend, and the oil services industry began to recover. Hilong was infiltrating into the overseas oil services market. In the complex and highly competitive market environment, Hilong implemented all-round normalized control of the pandemic, strengthened market development, gave full play to the synergy among drilling and workover services, technical services and trade services, ensured the stability of the production and operation order of the segment and realized the steady improvement of performance. With the efforts of the drilling and workover service team, the utilization rate of our drilling and workover rigs in the whole year was significantly higher than that of 2020, and the inter well relocation and installation cycle of the Company was significantly shorter than that of 2020. At the same time, the Company successfully bid for the overall contract of drilling from Kuwait Energy Iraq Ltd. ("**KE Iraq**"), and made an important breakthrough in business in Iraq market. During the reporting period, the project management level, comprehensive operation performance and customer satisfaction of Hilong's multiple drilling and workover service teams were further improved. For example, HL-15 drilling team provided drilling services to Orionoil Er S.A. in Ecuador and won first place in the comprehensive assessment of all contractors; In Iraq, the HL-99 and HL-100 teams are among the best in our customer BP IRAQ N.V.'s ranking of drilling and workover rigs with excellent performance and efficient operation performance. As a result of effective pandemic control, they became the only one customer service provider whose continuous operation had not been affected by the pandemic. The technical service team has successfully operated many businesses, including rock fragments processing service, drilling mud service, directional well service, well cementation service and casting down service, and the team will continue to actively explore diversified business fields including well completion and production increase, drilling speed and efficiency improvement, oilfield environmental protection, etc. In terms of trade service business, new contracts with over double the amount of 2020 were entered into in Ecuador, and achieved a new breakthrough in the trade of accessories in addition to tubing and casing. In addition, Hilong has successfully completed the qualification certification of many large international customers, and it achieved the extension or renewal of many contracts to accumulate strength for further development in the future.

Line Pipe Technology and Services

During the reporting period, the line pipe technology and services segment achieved a total revenue of RMB389 million, representing a significant year-on-year increase of 53%. In 2021, the overall workload of this sector was heavy, and the contract amount of each business reached a record high. Line pipe anti-corrosive coating and concrete counterweight businesses firmly held the core customers. During the reporting period, they successfully won the bid for many key projects from large customers. For example, Zhejiang Provincial Energy Group Company Ltd.* (浙江省能源集團有限公司), Zhejiang Petroleum & Chemical Co, Ltd.* (浙江石油化工有限公司) and the Company signed a series of line pipe anti-corrosive coating and concrete counterweight service contracts. Hilong and Baoshan Steel Co., Ltd.* (寶山鋼鐵股份有限公司) have always maintained close cooperation, and we signed multiple sales contracts in 2021. During the reporting period, the Company was shortlisted in the supplier system of BASF (China) Co., Ltd.* (巴斯夫(中國)有限公司) and the annual service supplier system of Shaanxi Yanchang Petroleum (Group) Co., Ltd.* (陝西延長石油(集團)有限責任公司), and certified by TotalEnergies, laying a solid foundation for further developing international and domestic markets and exploring potential customers and orders. Our pipeline inspection services developed rapidly and successfully won many projects in the domestic market. The inner inspection equipment of the Company has been recognised by many domestic professional companies, and we also actively promoted our overseas business. Various types and sizes of inspection equipment have been successfully developed or put into use, further diversifying our equipment and improving the hardware strength of the Company. During the reporting period, in terms of the information technology business, we signed a number of contracts in relation to industrial intelligent sensing products and industrial Internet platform. The performance of our information technology business was taken to a higher level.

Offshore Engineering Services

During the reporting period, the overall operation of the offshore engineering services segment was stable, and all projects ran smoothly. We recorded a total revenue of RMB478 million, representing a significant year-on-year increase of 26%. Following the excellent completion of the first dry season construction of Bangladesh's submerged pipeline laying project, Hilong team successfully completed the deep excavation and stemming operation of four world-class channels in the second dry season construction in 2021 under various kinds pressures generated by the complexity of construction technologies and the increased uncertainty of construction period caused by the pandemic, setting a world record of 11.9 meter deep trench excavation on the seabed, and completed the repair of damaged pipelines with high efficiency in only 7 days. The comprehensive business strength shown by Hilong team has won high recognition from all parties involved in the project. This segment always follows spontaneity, endeavored to explore more diversified business opportunities, made breakthroughs in fields other than oil and gas industry, and successfully entered the offshore wind power installation market. Hilong offshore engineering team provides crane ship leasing and ship operation related services for the offshore wind power engineering project of the Xiamen branch of CCCC Third Navigation Engineering Bureau Co., Ltd.* (中交第三航務工程局有限公司), and cooperates with Jiangsu Huaxicun Offshore Engineering Service Co., Ltd.* (江蘇華西村海洋工程服務有限公司) to carry out wind power business. Wind power projects have contributed to the Company's continuous and stable cash flow. In addition, Hilong also fully leveraged the resources of its partners to participate in a vessel leasing service project in Russia, and the required lifting and pipe-laying vessel successfully participated in the corresponding submarine pipeline laying operation during the reporting period.

Technology Research and Development

Hilong always adheres to the development strategy of scientific and technological innovation and attaches great importance to scientific and technological research and development investment and the transformation of achievements. In 2021, every business segment of the Company set up at least a project, and some progress was made. In terms of drill pipes business, drill pipes with special buckle such as HLIST39/HLIST54 were certified by our customers, laying a solid foundation for entering the high-end market in the Middle East. We carried out the development of titanium alloy drill pipes to the full, completed the product and process optimization of 120S High Strength Anti-Sulfurated Drill Pipes, completed the trial of the production line of 125S High Strength Anti-Sulfurated Drill Pipes, completed the corrosion resistance research of HLU165 High Strength Drill Pipes and significantly improved their performance. We focused on promoting the technical development of drill pipes with radio frequency identification tags and drilling tool information management system, and significant progress was made. In terms of OCTG coating, the equipment and process technology development test of the large diameter special-shaped pipeline in-wall coating customized for the Middle East market has been carried out smoothly, and phased results have been achieved. Great technological breakthroughs have been made in the development of super-thermostable OCTG powder coating. Significant achievements have also been made in the development of antifouling and anti-wax precipitation coating and oil casting shock-resistant coating, which are on trial. In terms of pipeline inspection business, we have completed the development, testing, processing and transformation of various sizes of deformable inspection equipment and multiple-unit inspection equipment. Hilong will continue to consolidate its technological advantages, adhere to the development strategy of scientific and technological innovation, and drive future development with science and technology.

MATERIAL ACQUISITIONS OR DISPOSALS

References are made to the announcement of the Company dated 18 June 2021, and circular dated 29 September 2021 in relation to the disposal. On 18 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) ("**Seller**"), Shanghai Jintang Industry Co., Ltd.* (上海金鏜實業有限公司) ("**Purchaser**") and Shanghai Hilong Special Steel Pipe Co., Ltd.* (上海海隆特種鋼管有限公司) ("**Target Company**") entered into the Equity Transfer Agreement, pursuant to which the Seller had agreed to dispose of the 70% equity interest held by the Seller in the Target Company for a total consideration of RMB103,480,000. Upon completion, the Company held 30% equity interest in the Target Company, and the Target Company ceased to be a subsidiary of the Company and the financial information of the Target Company will no longer be consolidated into the Group's consolidated financial statements.

Save as disclosed above, the Company did not have any other material acquisition or disposal of subsidiaries, associates, joint ventures or significant investment during the year ended 31 December 2021.

OUTLOOK

In 2022, in terms of the international market, with the gradual weakening of the impact of the pandemic and the rise of global energy demand, and under the influence of geopolitics, under-supply and other factors, the price of crude oil continues to rise, setting a new record in recent years, which is bound to drive the further growth of industry investment and workload, and then drive the recovery of the prosperity of oil and gas industry. The rising trend of bulk raw material prices has also dropped, and the sales price of products/services has also increased after a period of market adjustment. The oilfield equipment supply and oilfield services market will continue to recover. In the domestic market, the implementation of the 2019-2025 Seven-Year E&P Action Plan of China's oil and gas industry has entered its fourth year. China's crude oil production has increased and stabilized, and natural gas production is rising rapidly. In July 2021, the "A Work Progress Meeting for Significantly Enhancing Oil and Gas Exploration and Development in 2021" convention showed that China will vigorously enhance oil and gas exploration and development, indicating that the high-quality development of China's domestic oil and gas industry would reach a new level. At the same time, the goal of "we aim to have CO_2 emissions peak before 2030 and achieve carbon neutrality before 2060" proposed by China will further promote the development of domestic natural gas in China. In general, the domestic and foreign oil and gas industry markets are promising. Hilong, as an industry leader in many subdivided fields, will fully grasp the market opportunities brought by the recovery of the global oil and gas industry and the continuous increase of domestic oil and gas exploration and development.

In terms of the domestic drill pipes market, Hilong will adopt differentiated marketing strategies for different customers, continue to position itself in high-end products and markets, and focus on the development and promotion of anti-sulfurated drill pipes, titanium alloy drill pipes and high-end special buckle and other drilling tool products. In the North American market, Hilong will continue to maintain its strategic cooperation relationship with existing important business partners including Ensign Drilling Inc., actively expand new large customers and continuously obtain stable orders in the region. In the Middle East market, while following up with existing customers and implementing orders for the new year, Hilong will continue to focus on the development of high-end market and strive for more orders of high value-added products. We actively seek high-quality and economical pipe material sources in the Russian and Central Asian markets, reduce manufacturing costs, focus on following up core large customers, and maintain the stable development of local production and sales activities of drilling tool products in Russia; At the same time, we will continue to pay attention to the changes in the geopolitical situation and strictly achieve compliance and steady operation.

For OCTG coating business, the Company intends to continuously improve the penetration and market coverage in the whole industry of its domestic and overseas markets, and proactively carry out production and sales functions through diversification and differentiation to satisfy the customized needs of high-end customers.

For oil services business, Hilong will make every effort to expand new markets, new customers and new projects, strive to make greater breakthroughs in the Middle East, Africa and other regions, and make every effort to improve the utilization rate of existing drilling and workover rigs. We will strengthen market development, make full use of external resources, and seek business expansion and transformation on the basis of existing mature businesses. In February 2022, the Company signed a drilling service contract with KE Iraq, which is the unit contracting for providing drilling services for three oil wells, with a total contract amount of about USD33.1 million. This is the first drilling contract project obtained by Hilong Oil Service in Iraq, marking the further development of Hilong Oil Service in drilling contract service. In order to seize opportunities, this section will establish a targeted technical service product line, so that the Company has the technical team and technical ability to continuously provide drilling and workover contract services. At the same time, in order to effectively grasp the market opportunities brought by the new round of domestic oil and gas development, the Company is actively obtaining the qualification certification of domestic core customers, and strive to provide domestic customers with diversified high-end oilfield services covering drilling and workover and technical services. In terms of trade business, while implementing existing customer orders and firmly grasping the follow-up cooperation opportunities of existing key customers, the Company will explore ideas and develop more new trade products in addition to tubing and casing to further expand its trade business. In addition, we will strive to form an interconnection with other businesses, help drilling and workforce services, technical services and foreign cooperation, and further enhance customer stickiness.

The line pipe technology and services sector will grasp the market opportunities brought by the domestic oil and gas pipeline network construction, and will continue to develop overseas projects based on existing core customers. Our pipeline inspection services will control domestic businesses and explore overseas opportunities, and strive to further improve the Company's performance in 2022.

Offshore engineering services will continue to maintain close cooperation with CNOOC Limited ("**CNOOC**"), the domestic core customer. In the future, we will further maintain CNOOC system customers and fully grasp the potential market opportunities contained in CNOOC's "Seven-Year Action Plan". Conforming to the direction and trend of offshore engineering market, the Company will also actively expand customers outside CNOOC system, strengthen market development in international and domestic markets, and focus on business opportunities in offshore wind power engineering construction market. At the same time, we make full use of the joint venture platform Ocentra Offshore Pte. Ltd. to consolidate the Southeast Asian market and pay attention to project opportunities in the Middle East and other regions.

Events after the End of the Reporting Period

There were no important events affecting the Company nor any of its subsidiaries since the end of the reporting period and up to the date of this annual results announcement.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the applicable 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 2021.

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 2021.

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 2021 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 2021 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 2021.

DIVIDENDS

The Board resolved not to recommend any dividend for the year ended 31 December 2021.

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as shareholders of the Company to attend and vote at the annual general meeting ("**AGM**") to be held on 24 June 2022, the register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022, 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 Monday, 20 June 2022.

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 2021 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

25 March 2022

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.