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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,703.2 million, representing an increase of approximately 8.4% as compared with the same period in 2021.
- Operating profit was approximately RMB357.7 million, representing an increase of approximately 87.1% as compared with the same period in 2021.
- Profit attributable to equity owners of the Company was approximately RMB54.1 million, representing an increase of approximately 34.6% as compared with the profit for the period attributable to equity owners of the Company of RMB40.2 million for the six months ended 30 June 2021.
- The Board resolved not to declare any interim dividend for the six months ended 30 June 2022.

* For identification purposes only

The board (the “**Board**”) of directors (the “**Directors**”) of Hilong Holding Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**” or “**Hilong**” or “**us**”) prepared according to the Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the six months ended 30 June 2022 (the “**Interim Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		(Unaudited)	
		Six months ended 30 June	
	Note	2022	2021
		RMB'000	RMB'000
Revenue	4(a)	1,703,243	1,571,075
Cost of sales		<u>(1,246,369)</u>	<u>(1,149,127)</u>
Gross profit		456,874	421,948
Selling and marketing expenses		(63,615)	(43,482)
Administrative expenses		(209,852)	(217,007)
Net impairment losses on financial assets		(47,561)	(25,308)
Other gains – net		<u>221,870</u>	<u>55,018</u>
Operating profit		357,716	191,169
Finance income		<u>1,346</u>	1,161
Finance costs		<u>(287,291)</u>	(142,694)
Finance costs – net		(285,945)	(141,533)
Share of (loss)/profit of investments accounted for using equity method		<u>(1,895)</u>	26,013
Profit before income tax		69,876	75,649
Income tax expense	5	<u>(13,912)</u>	<u>(33,289)</u>
Profit for the period		<u>55,964</u>	<u>42,360</u>
Profit attributable to:			
Equity owners of the Company		54,058	40,209
Non-controlling interests		<u>1,906</u>	<u>2,151</u>
		<u>55,964</u>	<u>42,360</u>
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	6	0.0319	0.0237
– Diluted	6	<u>0.0319</u>	<u>0.0237</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2022

		(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		2,484,227	2,381,624
Right-of-use assets		47,682	51,223
Intangible assets		231,344	210,219
Investments accounted for using equity method		86,503	93,231
Deferred income tax assets	5	183,351	158,224
Other long-term assets		71,616	50,778
		<hr/>	<hr/>
Total non-current assets		3,104,723	2,945,299
Current assets			
Inventories		1,416,363	1,050,881
Contract assets		179,576	131,063
Financial assets at fair value through other comprehensive income		47,835	132,897
Derivative financial instruments		–	1,499
Trade and other receivables	8	2,092,594	1,663,545
Prepayments		402,552	429,371
Current income tax recoverable		37,056	28,067
Restricted cash		30,666	60,379
Cash and cash equivalents		519,003	628,805
		<hr/>	<hr/>
Total current assets		4,725,645	4,126,507
		<hr/>	<hr/>
Total assets		7,830,368	7,071,806
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	9	141,976	141,976
Other reserves		1,301,893	1,301,869
Currency translation differences		(113,234)	(435,273)
Retained earnings		2,060,965	2,006,907
		<hr/>	<hr/>
		3,391,600	3,015,479
Non-controlling interests		29,159	27,348
		<hr/>	<hr/>
Total equity		3,420,759	3,042,827
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)*As at 30 June 2022*

		(Unaudited) 30 June 2022 <i>RMB'000</i>	(Audited) 31 December 2021 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		2,650,315	2,432,509
Lease liabilities		9,638	11,655
Deferred income tax liabilities	5	36,795	36,345
Deferred revenue		41,496	44,350
		<hr/>	<hr/>
Total non-current liabilities		2,738,244	2,524,859
Current liabilities			
Trade and other payables	10	941,928	736,348
Derivative financial instruments		2,656	–
Contract liabilities		129,028	109,673
Current income tax liabilities		39,213	44,796
Borrowings		536,817	607,352
Lease liabilities		4,948	5,892
Deferred revenue		16,775	59
		<hr/>	<hr/>
Total current liabilities		1,671,365	1,504,120
		<hr/>	<hr/>
Total liabilities		4,409,609	4,028,979
		<hr/>	<hr/>
Total equity and liabilities		7,830,368	7,071,806
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2022

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	(Unaudited)	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flow from operating activities		
Cash flow generated from operations	47,961	313,795
Income tax paid	(53,807)	(19,863)
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(5,846)	293,932
	<hr/>	<hr/>
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	10,508	6,548
Payments for property, plant and equipment	(58,786)	(51,491)
Net cash inflow arising from financial instruments	–	23,000
Purchases of intangible assets	(3,862)	(767)
Net proceeds from disposal of subsidiaries of the Group	–	106,480
Capital reduction from an associate	3,800	–
Loans to related parties	(1,524)	–
Dividends received	1,033	2,773
	<hr/>	<hr/>
Net cash (used in)/generated from investing activities	(48,831)	86,543
	<hr/>	<hr/>
Cash flow from financing activities		
Proceeds from borrowings	455,940	477,250
Repayments of borrowings	(384,346)	(438,511)
Interest paid	(137,058)	(277,636)
Principal element of lease payments	(3,612)	(18,497)
Acquisition of non-controlling interests	–	(15,800)
Cash (outflow)/inflow arising from security deposit for bank borrowings	(7,180)	1,611
	<hr/>	<hr/>
Net cash used in financing activities	(76,256)	(271,583)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(130,933)	108,892
Cash and cash equivalents at beginning of the period	628,805	697,463
Effects of exchange rate changes on cash and cash equivalents	21,131	(2,998)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	519,003	803,357
	<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2022

1 BASIS OF PREPARATION

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

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

2 ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3 ESTIMATES

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

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

4 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

4 SEGMENT INFORMATION (continued)

(a) Revenue

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

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

4 SEGMENT INFORMATION (continued)

(b) Segment information

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

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

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Business segment	As at 30 June 2022 (Unaudited)				Total RMB'000
	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	
Segment assets	<u>3,616,180</u>	<u>739,336</u>	<u>1,961,843</u>	<u>1,426,506</u>	<u>7,743,865</u>
Investments accounted for using equity method					<u>86,503</u>
Total assets					<u>7,830,368</u>
Total liabilities (a)	<u>3,620,983</u>	<u>330,170</u>	<u>390,660</u>	<u>67,796</u>	<u>4,409,609</u>

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

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

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

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

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Business segment	As at 30 June 2021 (Unaudited)				
	Oilfield equipment manufacturing and services <i>RMB'000</i>	Line pipe technology and services <i>RMB'000</i>	Oilfield services <i>RMB'000</i>	Offshore engineering services <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	2,894,482	890,857	1,924,887	1,385,756	7,095,982
Investments accounted for using equity method					92,787
Total assets					7,188,769
Total liabilities (a)	3,248,847	388,171	393,378	43,702	4,074,098

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

(c) Geographical segments

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

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

4 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

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

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

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

5 INCOME TAX EXPENSE

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

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

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

Enterprises incorporated in Hong Kong are subject to income tax rates of 16.5% before 1 April 2018.

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

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

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

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

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

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

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

6 EARNINGS PER SHARE

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

	(Unaudited)	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Earnings attributable to equity owners of the Company (RMB'000)	54,058	40,209
Weighted average number of ordinary shares in issue (thousands of shares)	1,696,439	1,696,439
Basic earnings per share (RMB per share)	0.0319	0.0237

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

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 30 June) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 30 June 2022, there were 15,350,700 (30 June 2021: 15,350,700) share options outstanding related to 2013 Share Option Scheme. For the six months ended 30 June 2022 and 2021, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

7 DIVIDENDS

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

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2022 RMB'000	(Audited) 31 December 2021 RMB'000
Trade receivables (i)	1,950,736	1,526,001
– Due from related parties	16,160	10,512
– Due from third parties	1,934,576	1,515,489
Less: Provision for loss allowance of receivables	(171,272)	(129,166)
Trade receivables – net	1,779,464	1,396,835
Other receivables	310,384	263,964
Dividends receivables	2,746	2,746
Trade and other receivables – net	<u>2,092,594</u>	<u>1,663,545</u>

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

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

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

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

9 ORDINARY SHARES

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

10 TRADE AND OTHER PAYABLES

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

As at 30 June 2022 and 31 December 2021, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

10 TRADE AND OTHER PAYABLES (continued)

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

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

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

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

Revenue increased by RMB132.1 million, or 8.4%, from RMB1,571.1 million for the six months ended 30 June 2021 to RMB1,703.2 million for the Interim Period. Such increase was mainly due to the increase in revenue from the oilfield equipment manufacturing and services segment and line pipe technology and services segment, partly offset by the decrease in revenue from the offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB343.7 million, or 52.1%, from RMB659.4 million for the six months ended 30 June 2021 to RMB1,003.1 million for the Interim Period. Such increase primarily reflected the increase in revenue derived from drill pipe sales.

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

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

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

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

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

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

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

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

Cost of Sales/Services

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

Gross Profit and Gross Profit Margin

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Other Gain – Net

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

Finance Costs – Net

Finance costs – net increased by RMB144.4 million, or 102.0%, from RMB141.5 million for the six months ended 30 June 2021 to RMB285.9 million for the Interim Period. Such increase primarily reflected (i) an exchange loss of RMB124.0 million from the financing activities resulting from the appreciation of USD, while for the six months ended 30 June 2021 the exchange gain was 24.0 million; (ii) partly offset by that the interest expense from borrowings decreased from RMB166.3 million for the six months ended 30 June 2021 to RMB159.0 million for the Interim Period.

Profit before Income Tax

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

Income Tax Expense

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

Profit for the period attributable to equity owners of the Company

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

Inventories

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

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

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

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

Trade and Other Receivables

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

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

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

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

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

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

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

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

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

Trade and Other Payables

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

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

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

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

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

Liquidity and Financial Resources

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

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

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

Operating Activities

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

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

Investing Activities

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

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

Financing Activities

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

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

Capital Expenditures

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

Indebtedness

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

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

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

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

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

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

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

Reference is made to “Management Discussion and Analysis – Financial Review” of the Company’s 2021 annual report in relation to the 2024 Notes. The Company issued the 2024 Notes on 18 May 2021, and, in connection with the 2024 Notes, the Company pledged certain drilling rigs as securities. On 20 May 2021, the Company announced that the 2024 Notes had been listed on the Singapore Exchange Securities Trading Limited.

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 and restricted cash. Total capital is calculated as “equity” as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 30 June 2022 and 31 December 2021 are as follows:

	As at 30 June 2022 RMB’000	As at 31 December 2021 RMB’000
Total borrowings	3,187,132	3,039,861
Add: Lease Liabilities	14,586	17,547
Less: Cash and cash equivalents	(519,003)	(628,805)
Restricted cash	(30,666)	(60,379)
Net debt	2,652,049	2,368,224
Total equity	3,420,759	3,042,827
Total capital	6,072,808	5,411,051
Gearing ratio	43.67%	43.77%

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 recognized 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 17.2% appreciation of RMB against the USD from 21 July 2005 to 30 June 2022. 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 43.8% and 51.0% of the total revenue of the Company for the six months ended 30 June 2021 and the Interim Period, respectively.

Staff and Remuneration Policy

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

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

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

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

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

BUSINESS REVIEW

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

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

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

Oilfield Equipment Manufacturing and Services

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

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

Oilfield Services

During the Interim Period, the oilfield services segment recorded a total revenue of RMB459 million, representing a 6% growth compared with the corresponding period in 2021. The upward trend of oil price drove the capital expenditure invested by enterprises engaged in oilfields and gas fields. The oil service industry is anticipated to undergo a new booming

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

Line Pipe Technology and Services

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

Offshore Engineering Services

During the Interim Period, the offshore engineering services segment recorded a total revenue of RMB64 million, representing a remarkable 81% decrease from the corresponding period in 2021. During the first half of the year, the third-season construction of Bangladesh's submerged pipeline laying project was completed, and the project is currently wrapping up. During the Interim Period, the major tasks for the segment was the collection of trade receivables in respect of the completed Bangladesh projects and wind power projects and the repair and maintenance of vessels, in order to secure timely cash inflow, continuously explore opportunities for cost reduction and efficiency enhancement, and maintain the sound vessel conditions. Meanwhile, the Company is also actively exploring the domestic and international markets to seek new business opportunities; various contracts or letters of intention have been signed with a number of customers to date. In addition, during the Interim Period, Hilong obtained or renewed various qualification certifications relating to undertaking offshore oil engineering projects, production safety and so forth, getting well-prepared for further development going forward.

Technology Research and Development

Scientific and technological innovation is one of Hilong's core development strategies and has accompanied Hilong's entire development history. In the first half of 2022, every business segment of the Company had set up at least one project, and some progress was made. In terms of drilling tool products, substantial progress has been made in the research and manufacturing projects of HLNST special screw heads, which is expected to effectively enhance the performance of the existing ultra high torsional drill pipe joints of Hilong. The Group also actively conducted research and development of titanium alloy drill pipes, eco-friendly screw surface processing and application, research and application of HL135MS high strength sulfur-resistant drill pipes and so forth. Ongoing efforts were also made to foster the technological development in drill pipes with radio frequency identification tags and drilling tool information management systems, with some progress made. In terms of OCTG coating, Hilong completed the optimization of product technology for corrosion-resistant coating in HiNex5100 integrated oil casing, laying foundation for the localized production in Orenburgskaya and the promotion and application with respect to corrosion-resistant for Russian oil casing. Some progress was made on the research, manufacturing and application of the coating system for inner coating of drill pipe with saturated brine-resistant alkaline slurry, which will greatly improve the life of coating and lower the probability of failure in future. Important progress was also made in the research, manufacturing and application of inner coating for low-surface-processed pipes solely for oil, the functional development of rubber-based materials and technological research and development of application in coating materials. In terms of the pipeline inspection business, progress has been made on the application design and research of small-scale pipeline magnetic leakage testing equipment and UHD technology, with the completion of the design and testing of key components including 3-inch pipeline inertial mapping tester, 4-inch pipeline deformation and magnetic leakage tester, prober for 20-inch UHD magnetic leakage tester, and cabin. Hilong also actively commenced the research, development and testing of new testing technologies including magnetized testing technology, ultrasound inner pipeline testing technology and so forth.

In terms of the information technology business, the Company is actively exploring potential cooperations with telecom operators in the IT/digitalized business, and participation in national level chips projects. Additionally, our information technology business also made progress in the application research of technology for intelligent patrolling robots. Hilong will continue to solidify its technological strengths, focus on customer needs and lead technological development, adhere to the development strategy of scientific and technological innovation, and leverage upon technological reformation to build a distinctive industry chain and advantage. At present, five companies within the Group have been granted the “Highly Specialized and Innovative” (專精特新) corporate identity by the municipal government of Shanghai.

OUTLOOK

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

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

customers, while focusing on the development and promotion of high-end special buckle drilling tools for unconventional oil and gas resource extraction.

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

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

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

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

Events after the End of the Interim Period

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

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the Interim Period.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific inquiries to all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Interim Period.

REVIEW OF INTERIM 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 interim results for the Interim Period before the results were submitted to the Board for approval.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDENDS

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

PUBLICATION OF INTERIM RESULTS

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

The interim report for the Interim Period containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and become available on the same websites in due course.

APPRECIATION

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

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

Hong Kong, 26 August 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, Mr. CAO Hongbo and Dr. FAN Ren Da Anthony; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyang.