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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 2023

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,106.4 million, representing an increase of approximately 23.7% as compared with the same period in 2022.
- Operating profit was approximately RMB438.8 million, representing an increase of approximately 22.7% as compared with the same period in 2022.
- Profit attributable to equity owners of the Company was approximately RMB144.7 million, representing an increase of approximately 167.5% as compared with the profit for the period attributable to equity owners of the Company of RMB54.1 million for the six months ended 30 June 2022.
- The Board resolved not to declare any interim dividend for the six months ended 30 June 2023.

* 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 2023 (the “**Interim Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

		(Unaudited)	
		Six months ended 30 June	
	Note	2023	2022
		RMB'000	RMB'000
Revenue	4(a)	2,106,394	1,703,243
Cost of sales		<u>(1,444,931)</u>	<u>(1,246,369)</u>
Gross profit		661,463	456,874
Selling and marketing expenses		(60,685)	(63,615)
Administrative expenses		(301,708)	(209,852)
Net impairment losses on financial assets		(17,985)	(47,561)
Other gains – net		<u>157,668</u>	<u>221,870</u>
Operating profit		438,753	357,716
Finance income		3,800	1,346
Finance costs		(210,793)	(287,291)
Finance costs – net		(206,993)	(285,945)
Share of profit/(loss) of investments accounted for using equity method		<u>55</u>	<u>(1,895)</u>
Profit before income tax		231,815	69,876
Income tax expense	5	<u>(81,253)</u>	<u>(13,912)</u>
Profit for the period		150,562	55,964
Profit attributable to:			
Equity owners of the Company		144,701	54,058
Non-controlling interests		5,861	1,906
		<u>150,562</u>	<u>55,964</u>
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	6	0.0853	0.0319
– Diluted	6	0.0853	0.0319

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	(Unaudited)	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	<u>150,562</u>	<u>55,964</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	25	24
Exchange differences on translation of foreign operations	<u>(56,774)</u>	<u>321,944</u>
Total comprehensive income for the period	<u>93,813</u>	<u>377,932</u>
Attributable to:		
Equity owners of the Company	88,480	376,121
Non-controlling interests	<u>5,333</u>	<u>1,811</u>
	<u>93,813</u>	<u>377,932</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

	<i>Note</i>	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		2,580,892	2,533,230
Right-of-use assets		48,766	51,850
Intangible assets		220,082	219,364
Investments accounted for using equity method		49,523	93,847
Deferred income tax assets		176,022	183,586
Other long-term assets		142,393	105,659
Total non-current assets		3,217,678	3,187,536
Current assets			
Inventories		1,342,553	1,174,154
Contract assets		166,578	188,301
Financial assets at fair value through other comprehensive income		45,547	52,059
Trade and other receivables	8	1,905,643	1,784,960
Prepayments		504,122	470,280
Current income tax recoverable		45,472	69,542
Restricted cash		79,710	95,755
Cash and cash equivalents		838,140	778,440
Total current assets		4,927,765	4,613,491
Total assets		8,145,443	7,801,027
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	9	141,976	141,976
Other reserves		1,309,103	1,309,078
Currency translation differences		(324,806)	(268,560)
Retained earnings		2,285,393	2,140,692
Non-controlling interests		37,121	31,788
Total equity		3,448,787	3,354,974

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)*As at 30 June 2023*

		(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		2,552,844	2,546,163
Lease liabilities		13,961	14,620
Deferred income tax liabilities		37,781	36,660
Deferred revenue		60,160	61,509
		<hr/>	<hr/>
Total non-current liabilities		2,664,746	2,658,952
Current liabilities			
Trade and other payables	10	1,329,287	1,033,268
Contract liabilities		68,570	126,512
Current income tax liabilities		43,958	53,541
Borrowings		587,555	569,197
Lease liabilities		2,481	4,524
Deferred revenue		59	59
		<hr/>	<hr/>
Total current liabilities		2,031,910	1,787,101
		<hr/>	<hr/>
Total liabilities		4,696,656	4,446,053
		<hr/>	<hr/>
Total equity and liabilities		8,145,443	7,801,027

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2023

	(Unaudited)						
	Capital and reserves attributable to equity owners of the Company						
	Ordinary shares <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Cumulative translation differences <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
As at 1 January 2022	141,976	1,301,869	(435,273)	2,006,907	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	322,039	54,058	376,121	1,811	377,932
As at 30 June 2022	<u>141,976</u>	<u>1,301,893</u>	<u>(113,234)</u>	<u>2,060,965</u>	<u>3,391,600</u>	<u>29,159</u>	<u>3,420,759</u>
As at 1 January 2023	141,976	1,309,078	(268,560)	2,140,692	3,323,186	31,788	3,354,974
Profit for the period	–	–	–	144,701	144,701	5,861	150,562
Other comprehensive income/(loss)	–	25	(56,246)	–	(56,221)	(528)	(56,749)
Total comprehensive income for the period	–	25	(56,246)	144,701	88,480	5,333	93,813
As at 30 June 2023	<u>141,976</u>	<u>1,309,103</u>	<u>(324,806)</u>	<u>2,285,393</u>	<u>3,411,666</u>	<u>37,121</u>	<u>3,448,787</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	(Unaudited)	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flow from/(used in) operating activities		
Cash flow generated from operations	238,584	47,961
Income tax paid	(61,610)	(53,807)
	176,974	(5,846)
Cash flow from/(used in) investing activities		
Proceeds from sale of property, plant and equipment	4,235	10,508
Payments for property, plant and equipment	(75,533)	(58,786)
Purchases of intangible assets	–	(3,862)
Net proceeds from disposal of an associate of the Group	57,980	–
Proceeds from Shanghai Hilong Shine New Material Co., Ltd. <i>(Note 11)</i>	70,000	–
Capital reduction from an associate	–	3,800
Loans to related parties	(10,450)	(1,524)
Dividends received	3,452	1,033
	49,684	(48,831)
Cash flow used in financing activities		
Proceeds from borrowings	348,263	455,940
Repayments of borrowings	(330,919)	(384,346)
Interest paid	(137,405)	(137,058)
Principal element of lease payments	(3,180)	(3,612)
Cash inflow/(outflow) arising from security deposit for bank borrowings	930	(7,180)
Dividends paid	(500)	–
Repurchase of the 2024 Notes	(52,230)	–
	(175,041)	(76,256)
Net increase/(decrease) in cash and cash equivalents	51,617	(130,933)
Cash and cash equivalents at beginning of the period	778,440	628,805
Effects of exchange rate changes on cash and cash equivalents	8,083	21,131
	838,140	519,003
Cash and cash equivalents at end of the period	838,140	519,003

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2023

1 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2023 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 2022, and any public announcements made by the Company during the interim reporting period.

2 MATERIAL ACCOUNTING POLICIES INFORMATION

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, 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. There is no material impact as a result of adopting these standards.

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKFRS 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

2 MATERIAL ACCOUNTING POLICIES INFORMATION (continued)

- (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2023 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments)	Lease liability in sale and leaseback	1 January 2024
HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
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 2022.

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 2023 and 2022 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 2023 and 2022 are set out as follows:

	(Unaudited)	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	1,275,106	1,003,136
Line pipe technology and services	93,983	177,271
Oilfield services	588,661	458,544
Offshore engineering services	148,644	64,292
	<u>2,106,394</u>	<u>1,703,243</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 2023 is as follows:

Business segment	Six months ended 30 June 2023 (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	1,289,188	124,442	597,116	148,644	2,159,390
Inter-segment sales	(14,082)	(30,459)	(8,455)	–	(52,996)
Revenue from external customers	<u>1,275,106</u>	<u>93,983</u>	<u>588,661</u>	<u>148,644</u>	<u>2,106,394</u>
Revenue from contracts with customers:					
– at a point in time	1,024,658	25,333	133,034	–	1,183,025
– over time	<u>234,712</u>	<u>68,650</u>	<u>455,627</u>	<u>148,644</u>	<u>907,633</u>
	<u>1,259,370</u>	<u>93,983</u>	<u>588,661</u>	<u>148,644</u>	<u>2,090,658</u>
Revenue from other sources:					
– rental income	<u>15,736</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,736</u>
	<u>1,275,106</u>	<u>93,983</u>	<u>588,661</u>	<u>148,644</u>	<u>2,106,394</u>
Results					
Segment gross profit	<u>467,185</u>	<u>17,948</u>	<u>170,041</u>	<u>6,289</u>	<u>661,463</u>
Segment profit/(loss)	<u>426,551</u>	<u>(27,839)</u>	<u>88,924</u>	<u>(9,744)</u>	<u>477,892</u>
Corporate overheads					<u>(39,139)</u>
Operating profit					438,753
Finance income					3,800
Finance costs					(210,793)
Share of profit of investments accounted for using equity method					<u>55</u>
Profit before income tax					<u>231,815</u>
Other information					
Depreciation of property, plant and equipment	30,096	8,709	57,089	28,193	124,087
Depreciation of right-of-use assets	2,134	–	–	1,489	3,623
Amortisation of intangible assets	3,617	327	397	–	4,341
Capital expenditure	<u>37,774</u>	<u>7,818</u>	<u>33,725</u>	<u>1,653</u>	<u>80,970</u>

4 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Business segment	As at 30 June 2023 (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	<u>3,706,156</u>	<u>628,569</u>	<u>2,247,419</u>	<u>1,513,776</u>	<u>8,095,920</u>
Investments accounted for using equity method					<u>49,523</u>
Total assets					<u>8,145,443</u>
Total liabilities (a)	<u>3,786,014</u>	<u>306,530</u>	<u>489,496</u>	<u>114,616</u>	<u>4,696,656</u>

(a) As at 30 June 2023, the Senior Notes of USD345,953,000 (31 December 2022: USD360,388,000) 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 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	<u>217,631</u>	<u>143,287</u>	<u>359,218</u>	<u>64,292</u>	<u>784,428</u>
	995,662	177,271	458,544	64,292	1,695,769
Revenue from other sources:					
– rental income	<u>7,474</u>	–	–	–	<u>7,474</u>
	<u>1,003,136</u>	<u>177,271</u>	<u>458,544</u>	<u>64,292</u>	<u>1,703,243</u>
Results					
Segment gross profit/(loss)	<u>284,915</u>	<u>61,380</u>	<u>150,722</u>	<u>(40,143)</u>	<u>456,874</u>
Segment profit/(loss)	<u>305,373</u>	<u>25,818</u>	<u>85,650</u>	<u>(36,415)</u>	<u>380,426</u>
Corporate overheads					<u>(22,710)</u>
Operating profit					357,716
Finance income					1,346
Finance costs					(287,291)
Share of loss of investments accounted for using equity method					<u>(1,895)</u>
Profit before income tax					<u>69,876</u>
Other information					
Depreciation of property, plant and equipment	28,698	8,235	54,283	24,086	115,302
Depreciation of right-of-use assets	2,452	–	–	1,524	3,976
Amortisation 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)				
	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	3,616,180	739,336	1,961,843	1,426,506	7,743,865
Investments accounted for using equity method					86,503
Total assets					7,830,368
Total liabilities (a)	3,620,983	330,170	390,660	67,796	4,409,609

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

(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 (the "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	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Russia, Central Asia and Europe	590,050	485,181
North and South America	476,080	230,958
Middle East	420,704	437,213
The PRC	398,521	288,764
Africa	117,036	106,991
South and Southeast Asia	104,003	154,136
	2,106,394	1,703,243

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 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC	1,516,740	1,518,394
Middle East	641,101	571,888
North and South America	240,390	231,642
Russia, Central Asia and East Europe	180,181	202,306
South and Southeast Asia	139,895	143,758
Africa	131,433	136,456
	<u>2,849,740</u>	<u>2,804,444</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Middle East	33,794	2,914
The PRC	19,996	33,536
Russia, Central Asia and East Europe	13,649	5,101
North and South America	12,536	16,684
South and Southeast Asia	845	645
Africa	150	15
	<u>80,970</u>	<u>58,895</u>

5 INCOME TAX EXPENSE

	(Unaudited)	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current income tax	69,719	38,488
Deferred income tax	11,534	(24,576)
	<u>81,253</u>	<u>13,912</u>
Income tax expense	<u>81,253</u>	<u>13,912</u>

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

Enterprises incorporated in British Virgin Islands 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 United Arab Emirates are subject to income tax rates of 9% for taxable income exceeding AED375,000 since 1 June 2023.

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 2023 (for the six months ended 30 June 2022: 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 2023, Hilong Energy is in the process of renewal of the qualification.

As at 30 June 2023, the permanently reinvested unremitted earnings totalled RMB1,613,420,000 (31 December 2022: RMB1,582,520,000).

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	
	2023	2022
	RMB'000	RMB'000
Earnings attributable to equity owners of the Company (RMB'000)	144,701	54,058
Weighted average number of ordinary shares in issue (thousands of shares)	1,696,439	1,696,439
Basic earnings per share (RMB per share)	0.0853	0.0319

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 2023, there were 15,350,700 (30 June 2022: 15,350,700) share options outstanding related to 2013 Share Option Scheme. For the six months ended 30 June 2023 and 2022, 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 resolved not to declare any interim dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

The Directors have determined that no dividend will be proposed for the year ended 31 December 2022.

8 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Trade receivables (i)	1,643,343	1,656,660
– Due from related parties	17,982	15,392
– Due from third parties	1,625,361	1,641,268
Less: Provision for loss allowance of receivables (ii)	(48,048)	(99,969)
Trade receivables – net	1,595,295	1,556,691
Other receivables	307,602	225,523
Dividends receivables	2,746	2,746
Trade and other receivables – net	<u>1,905,643</u>	<u>1,784,960</u>

As at 30 June 2023 and 31 December 2022, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB44,457,000 (31 December 2022: RMB8,969,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2023.

- (i) The aging analysis of trade receivables based on invoice date, before provision for loss allowance, as at 30 June 2023 and 31 December 2022 was as follows:

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Trade receivables, gross		
– Within 90 days	976,411	1,058,256
– Over 90 days and within 180 days	247,340	270,982
– Over 180 days and within 360 days	279,874	129,575
– Over 360 days and within 720 days	75,514	61,789
– Over 720 days	64,204	136,058
	<u>1,643,343</u>	<u>1,656,660</u>

9 ORDINARY SHARES

	Issued and fully paid up (Unaudited)		Equivalent nominal value of ordinary shares
	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	(In RMB)
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>
As at 1 January 2023 and 30 June 2023	<u>1,696,438,600</u>	<u>169,643,860</u>	<u>141,975,506</u>

10 TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Bills payable	10,199	5,121
Trade payables:	920,816	677,867
– Due to third parties	902,610	658,541
– Due to related parties	18,206	19,326
Other payables:	155,873	88,225
– Due to third parties	64,969	64,462
– Due to related parties	90,904	23,763
Staff salaries and welfare payables	47,091	55,183
Interest payables	31,042	33,439
Accrued taxes other than income tax	145,656	156,678
Dividends payable	9,996	10,496
Other liabilities	8,614	6,259
	<u>1,329,287</u>	<u>1,033,268</u>

As at 30 June 2023 and 31 December 2022, 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 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Trade payables, gross		
– Within 90 days	634,686	486,171
– Over 90 days and within 180 days	278,808	184,827
– Over 180 days and within 360 days	2,890	1,593
– Over 360 days and within 720 days	1,214	2,163
– Over 720 days	3,218	3,113
	<u>920,816</u>	<u>677,867</u>

11 EVENTS AFTER THE BALANCE SHEET DATE

On 31 March 2023, the Company entered into an equity transfer agreement with a related party controlled by the controlling shareholder (the “Purchaser”), whereby the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire certain of the Group’s businesses comprising multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilised in oil and gas drilling and transmission processes in the PRC as well as overseas markets (representing 100% of the equity interest in Hilong Pipeline Engineering Technology Service Co., Ltd. (海隆管道工程技術服務有限公司), an indirect wholly-owned subsidiary of the Company (the “Target Company”, together with its subsidiaries, the “Target Group”) at the Consideration of RMB700 million, subject to the terms and conditions of the agreement. As of 30 June 2023, the Purchaser had paid RMB70 million. As at the approval date of this interim condensed consolidated financial information, as management considered that the timing for the completion of sales of Target Group to the Purchaser is still in progress, and thus, the financials of each member of the Target Group were consolidated into the Group’s consolidated financial statements for the six months ended 30 June 2023.

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			
	2023		2022	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	927,500	44.0	789,659	46.4
– Oil country tubular goods (“OCTG”) coating services	236,211	11.2	142,724	8.4
– Drill pipe components	30,465	1.4	10,192	0.6
– Hardbanding	25,033	1.2	15,819	0.9
– Others	55,897	2.7	44,742	2.6
Subtotal	1,275,106	60.5	1,003,136	58.9
Line pipe technology and services				
– OCTG coating materials	10,038	0.5	4,984	0.3
– Oil and gas line pipe coating materials	–	–	649	–
– Oil and gas line pipe coating services	18,599	0.9	60,913	3.6
– Corrosion Resistant Alloy (“CRA”) lined pipe	248	–	211	–
– Concrete Weighted Coating (“CWC”) services	31,030	1.5	90,389	5.3
– Pipeline inspection services	34,068	1.6	20,125	1.2
Subtotal	93,983	4.5	177,271	10.4
Oilfield services	588,661	27.9	458,544	26.9
Offshore engineering services	148,644	7.1	64,292	3.8
Total revenue	2,106,394	100.0	1,703,243	100.0

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

	Six months ended 30 June			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Russia, Central Asia and Europe	590,050	28.0	485,181	28.5
North and South America	476,080	22.6	230,958	13.6
Middle East	420,704	20.0	437,213	25.7
The PRC	398,521	18.9	288,764	17.0
Africa	117,036	5.6	106,991	6.2
South Asia and Southeast Asia	104,003	4.9	154,136	9.0
Total	<u>2,106,394</u>	<u>100.0</u>	<u>1,703,243</u>	<u>100.0</u>

Revenue increased by RMB403.2 million, or 23.7%, from RMB1,703.2 million for the six months ended 30 June 2022 to RMB2,106.4 million for the six months ended 30 June 2023 (the “**Interim Period**”). Such increase was mainly due to the increase in revenue from the oilfield equipment manufacturing and services segment and oilfield services segment, partly offset by the decrease in revenue from the line pipe technology and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB272.0 million, or 27.1%, from RMB1,003.1 million for the six months ended 30 June 2022 to RMB1,275.1 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	
	2023	2022
Sales of drill pipes		
– International market		
– volume (<i>tonnes</i>)	32,724	31,461
– unit price (<i>RMB/tonne</i>)	24,936	24,319
Subtotal (<i>RMB'000</i>)	<u>816,011</u>	<u>765,116</u>
– The PRC market		
– volume (<i>tonnes</i>)	6,510	1,434
– unit price (<i>RMB/tonne</i>)	17,126	17,118
Subtotal (<i>RMB'000</i>)	<u>111,489</u>	<u>24,543</u>
Total (<i>RMB'000</i>)	<u>927,500</u>	<u>789,659</u>

Revenue from sales of drill pipes in the international market increased by RMB50.9 million, or 6.7%, from RMB765.1 million for the six months ended 30 June 2022 to RMB816.0 million for the Interim Period. The increase primarily reflected an increase of 4.0% in the volume of drill pipes sold from 31,461 tonnes for the six months ended 30 June 2022 to 32,724 tonnes for the Interim Period and a 2.5% increase in average selling price sold in the international market from RMB24,319 per tonne for the six months ended 30 June 2022 to RMB24,936 per tonne for the Interim Period. The increase in the sales volume primarily reflected the large demands from the North American market 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 increased by RMB87.0 million, or 355.1%, from RMB24.5 million for the six months ended 30 June 2022 to RMB111.5 million for the Interim Period. The increase primarily reflected a 354.0% increase in the volume of drill pipes sold in the PRC market, from 1,434 tonnes for the six months ended 30 June 2022 to 6,510 tonnes for the Interim Period. The increase in the sales volume primarily reflected the Group sold drill pipes to certain domestic drilling rig manufacturers for their rigs sales.

Line pipe technology and services. Revenue from line pipe technology and services segment decreased by RMB83.3 million, or 47.0%, from RMB177.3 million for the six months ended 30 June 2022 to RMB94.0 million for the Interim Period. Such decrease primarily reflected the decrease in the revenue derived from CWC services and oil and gas line pipe coating services.

Oilfield services. Revenue from the oilfield services segment increased by RMB130.2 million, or 28.4%, from RMB458.5 million for the six months ended 30 June 2022 to RMB588.7 million for the Interim Period. Such increase mainly reflected the increase in revenue from trade services and the recovery of the utilization rate of drilling rigs for the Interim Period as compared to the six months ended 30 June 2022.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period mainly represented the revenue derived from the submerged pipeline laying project and the offshore wind power construction project.

Cost of Sales/Services

Cost of sales/services increased by RMB198.5 million, or 15.9%, from RMB1,246.4 million for the six months ended 30 June 2022 to RMB1,444.9 million for the Interim Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB204.6 million, or 44.8%, from RMB456.9 million for the six months ended 30 June 2022 to RMB661.5 million for the Interim Period. Gross profit margin was 31.4% for the Interim Period, increased 4.6% by compared to that for the six months ended 30 June 2022.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB2.9 million, or 4.6%, from RMB63.6 million for the six months ended 30 June 2022 to RMB60.7 million for the Interim Period. These expenses, amounting to 2.9% of revenue for Interim Period, are lower than the relevant ratio of 3.7% for the six months ended 30 June 2022.

Administrative Expenses

Administrative expenses increased by RMB91.8 million, or 43.7%, from RMB209.9 million for the six months ended 30 June 2022 to RMB301.7 million for the Interim Period. Such increase primarily reflected the increase in staff costs and travelling and communication expenses.

Other Gain – Net

The Group recognized net gain of RMB157.7 million for the Interim Period and net gain of RMB221.9 million for the six months ended 30 June 2022. The net gain recognized for the Interim Period primarily reflected the exchange gain of RMB140.8 million from the operating activities as a combined result of the appreciation of the USD and the proceeds of RMB17.1 million from disposal of an associate of the Group. The net gain recognized for the six months ended 30 June 2022 primarily reflected the exchange gain of RMB208.8 million from the operating activities as a combined result of the appreciation of the USD and the RUB and the proceeds of RMB4.2 million from disposal of property, plant and equipment.

Finance Costs – Net

Finance costs – net decreased by RMB78.9 million, or 27.6%, from RMB285.9 million for the six months ended 30 June 2022 to RMB207.0 million for the Interim Period. Such decrease primarily reflected (i) an exchange loss of RMB98.2 million from the financing activities resulting from the appreciation of the USD, while for the six months ended 30 June 2022 the exchange loss was 124.0 million and (ii) the increase of gains on repurchasing the 2024 Notes of RMB49.6 million for the Interim Period.

Profit before Income Tax

As a result of the foregoing, the Group recognized profit before income tax of RMB231.8 million for the Interim Period and profit before income tax of RMB69.9 million for the six months ended 30 June 2022.

Income Tax Expense

The Group recognized income tax expense of RMB13.9 million for the six months ended 30 June 2022 and RMB81.3 million for the Interim Period. Effective tax rate was approximately 19.9% for the six months ended 30 June 2022 and 35.1% for the Interim Period. The increase of effective tax rate mainly reflected (i) the unbalanced distribution of profit among the Group's subsidiaries and (ii) 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 RMB144.7 million for the Interim Period and profit for the period attributable to equity owners of the Company of RMB54.1 million for the six months ended 30 June 2022.

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 2023 RMB'000	As at 31 December 2022 RMB'000
Inventory	1,342,553	1,174,154
Turnover days of inventory (in days) ⁽¹⁾	158	152

- (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 2022. 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 2022 to 30 June 2023 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 2023 RMB'000	As at 31 December 2022 RMB'000
Trade receivables		
– Due from third parties	1,625,361	1,641,268
– Due from related parties	17,982	15,392
– Less: Provision for impairment of receivables	(48,048)	(99,969)
Trade receivables – net	1,595,295	1,556,691
Other receivables		
– Due from third parties	189,331	112,472
– Due from related parties	118,271	113,051
Other receivables	307,602	225,523
Dividend receivables	2,746	2,746
Total	1,905,643	1,784,960

The trade receivables of RMB44,457,000 (31 December 2022: RMB8,969,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2023.

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 2023 RMB'000	As at 31 December 2022 RMB'000
Trade receivables, net		
– Within 90 days	973,712	1,055,178
– Over 90 days and within 180 days	247,340	270,982
– Over 180 days and within 360 days	270,817	122,830
– Over 360 days and within 720 days	67,434	56,397
– Over 720 days	35,992	51,304
	1,595,295	1,556,691
Turnover days of trade receivables, net ⁽¹⁾	135	144

- (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 2022. 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 144 days as at 31 December 2022 to 135 days as at 30 June 2023 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	
	2023	2022
	RMB'000	RMB'000
As at 1 January	99,969	129,166
Provision for receivables loss allowance	7,367	42,917
Write-off of loss allowance	(59,288)	(811)
As at 30 June	48,048	171,272

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 2023 RMB'000	As at 31 December 2022 RMB'000
Bills payable	10,199	5,121
Trade payables		
– Due to related parties	18,206	19,326
– Due to third parties	902,610	658,541
Other payables		
– Due to related parties	90,904	23,763
– Due to third parties	64,969	64,462
Staff salaries and welfare payables	47,091	55,183
Interest payables	31,042	33,439
Accrued taxes other than income tax	145,656	156,678
Dividends payable	9,996	10,496
Other liabilities	8,614	6,259
	<u>1,329,287</u>	<u>1,033,268</u>

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

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Trade payables, gross		
– Within 90 days	634,686	486,171
– Over 90 days and within 180 days	278,808	184,827
– Over 180 days and within 360 days	2,890	1,593
– Over 360 days and within 720 days	1,214	2,163
– Over 720 days	3,218	3,113
	920,816	677,867
Turnover days of trade payables ⁽¹⁾	100	77

(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 2022. 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	
	2023	2022
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	176,974	(5,846)
Net cash generated from/(used in) investing activities	49,684	(48,831)
Net cash used in financing activities	(175,041)	(76,256)
Net increase/(decrease) in cash and cash equivalents	51,617	(130,933)
Exchange gains on cash and cash equivalents	8,083	21,131
Cash and cash equivalents at beginning of the period	778,440	628,805
Cash and cash equivalents at end of the period	838,140	519,003

As at 30 June 2023, cash and cash equivalents were mainly denominated in RMB, USD, RUB and AED.

Operating Activities

Net cash generated from operating activities for the Interim Period was RMB177.0 million, representing cash generated from operation of RMB238.6 million, offsetting by the income tax payment of RMB61.6 million.

Net cash used in operating activities for the six months ended 30 June 2022 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 2022.

Investing Activities

Net cash generated from investing activities for the Interim Period was RMB49.7 million, primarily reflecting net proceeds of RMB58.0 million from disposal of an associate of the Group and proceeds of RMB70.0 million from Shanghai Hilong Shine New Material Co., Ltd (上海海隆賽能新材料有限公司), partially offset by payment of RMB75.5 million for purchases of property, plant and equipment.

Net cash used in investing activities for the six months ended 30 June 2022 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.

Financing Activities

Net cash used in financing activities for the Interim Period was RMB175.0 million, primarily reflecting (i) the repayment of borrowings of RMB330.9 million, (ii) interest payment of RMB137.4 million, and (iii) the payment of repurchase of Senior Notes of RMB52.2 million, partly offset by proceeds of RMB348.3 million from borrowings.

Net cash used in financing activities for the six months ended 30 June 2022 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.

Capital Expenditures

Capital expenditures were RMB58.9 million and RMB81.0 million for the six months ended 30 June 2022 and the Interim Period, respectively. The increase in capital expenditures for the Interim Period was mainly due to the increase in development expenditures of overseas business in the oilfield equipment manufacturing and services segment.

Indebtedness

As at 30 June 2023, the outstanding indebtedness of RMB3,140.4 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 2023 RMB'000	As at 31 December 2022 RMB'000
Non-current		
Bank borrowings – secured	84,099	92,428
2024 Notes – secured	2,514,455	2,496,567
Less: Current portion of non-current borrowings – secured	(45,710)	(42,832)
	<u>2,552,844</u>	<u>2,546,163</u>
Current		
Bank borrowings – secured	199,745	230,365
Bank borrowings – unsecured	342,100	296,000
Current portion of non-current borrowings – secured	45,710	42,832
	<u>587,555</u>	<u>569,197</u>
	<u>3,140,399</u>	<u>3,115,360</u>

As at 30 June 2023, bank borrowings of RMB3,064.5 million were obtained at fixed rate (31 December 2022: RMB3,020.9 million).

The bank borrowings of RMB110.2 million (31 December 2022: RMB107.2 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB43.4 million as at 30 June 2023 (31 December 2022: RMB44.3 million).

The borrowings of RMB63,026,000 (31 December 2022: RMB70,808,000) from financial institution were secured by trade receivables of RMB17,871,000 (31 December 2022: RMB8,969,000) of the Group as at 30 June 2023.

The bank borrowings of RMB10,532,000 (31 December 2022: RMB16,315,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 30 June 2023.

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 2023, USD33,545,000 were drawn down, out of which USD23,040,000 had been repaid in past years and the six months ended 30 June 2023. The remaining principal balance will be fully repayable from 2023 to 2025.

References are made to “Management Discussion and Analysis – Financial Review” in the 2021 annual report of the Company in relation to the 2024 Notes. On 20 May 2021, the Company announced that the Debt Restructuring was completed on 18 May 2021, the Existing Notes had been cancelled and, in exchange therefor, 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.

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 2023 and 31 December 2022 are as follows:

	As at 30 June 2023 RMB’000	As at 31 December 2022 RMB’000
Total borrowings	3,140,399	3,115,360
Add: Lease Liabilities	16,442	19,144
Less: Cash and cash equivalents	(838,140)	(778,440)
Restricted cash	(79,710)	(95,755)
Net debt	2,238,991	2,260,309
Total equity	3,448,787	3,354,974
Total capital	5,687,778	5,615,283
Gearing ratio	39.36%	40.25%

Material Acquisitions and/or Disposals of Subsidiaries and Affiliated Companies

(1) On 31 March 2023 (after trading hours), Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司) (the “**Vendor**”), an indirect wholly-owned subsidiary of the Company, and Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司) (the “**Purchaser**”), a connected person of the Company, entered into an equity transfer agreement (the “**Equity Transfer Agreement**”), pursuant to which the Vendor agreed to sell, and the Purchaser agreed to acquire, certain of the Group’s businesses comprising multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets which will be effected by sale of the sale interests (the “**Sale Interests**”) (representing 100% of the equity interest in Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司), an indirect wholly-owned subsidiary of the Company (the “**Target Company**”) at the consideration of RMB700 million (the “**Consideration**”), subject to the terms and conditions of the Equity Transfer Agreement (the “**Hilong Pipeline Disposal**”). Upon completion, the Company will not hold any interest in the Target Company, and each member of the Target Company and its subsidiaries will cease to be a subsidiary of the Company. The Disposal by the Vendor and the transactions contemplated under the Equity Transfer Agreement constitute a very substantial disposal and connected transaction for the Company. For details of the Hilong Pipeline Disposal, please refer to the announcement and circular (the “**Disposal Circular**”) of the Company in relation to the very substantial disposal and connected transaction of the Company dated 31 March 2023. Unless otherwise defined, terms used herein shall have the same meanings as defined in the Disposal Circular.

As of 30 June 2023, the Purchaser had paid RMB70 million, being the First Instalment of the Consideration for the Hilong Pipeline Disposal. The remaining Consideration has not been paid as of the date of this announcement. The Company has regular communication with the Purchaser and will closely monitor the progress of the payment of the remaining Consideration. As of 30 June 2023, each member of the Target Group remained as a subsidiary of the Company and their financials were consolidated into the Group’s consolidated financial statements for the six months ended 30 June 2023. Please also refer to note 11 to the interim condensed consolidated financial information in this announcement for further details.

(2) On 3 April 2023, Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司) (the “**Seller**”), Shanghai Jintang Industry Co., Ltd.* (上海金鏜實業有限公司) (“**Shanghai Jintang**”) and Shanghai Hilong Special Steel Pipe Co., Ltd.* (上海海隆特種鋼管有限公司) (“**Shanghai Hilong Special Steel Pipe**”) entered into an equity transfer agreement, pursuant to which the Seller has agreed to dispose of, and Shanghai Jintang has agreed to acquire, the 30% equity interest held by the Seller in Shanghai Hilong Special Steel Pipe for a total consideration of RMB57,980,000 (“**Shanghai Hilong Special Steel Pipe Disposal**”). Shanghai Hilong Special Steel Pipe Disposal, when aggregated with the previous disposal of the 70% equity interest in Shanghai Hilong Special Steel Pipe (“**Previous Shanghai Hilong Special Steel Pipe Disposal**”), pursuant to Rule 14.22 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”), would remain as a major transaction under the Listing Rules based on the results of the applicable percentage ratios. Since the Company has complied with the Listing Rules in respect of the requirements for a major transaction in the Previous Shanghai Hilong Special Steel Pipe Disposal, the Shanghai Hilong Special Steel Pipe Disposal is considered on a standalone basis and therefore constitutes a discloseable transaction for the Company, and is subject to the reporting and announcement requirements but exempt from the circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

For details of the Shanghai Hilong Special Steel Pipe Disposal, please refer to the announcement of the Company in relation to the discloseable transaction of the Company dated 3 April 2023.

Save for the Hilong Pipeline Disposal and Shanghai Hilong Special Steel Pipe Disposal disclosed above, the Group did not have any material acquisitions and/or disposals of subsidiaries and affiliated companies for the Interim Period.

Contingent Liabilities

As at 30 June 2023, the Group had no contingent liabilities (31 December 2022: Nil).

Pledge of Assets

As at 30 June 2023, the Group has pledged 17 drilling rigs as collateral in connection with the 2024 Notes. 3 drilling rigs are in operation in Nigeria, 5 drilling rigs are in operation in Ecuador, 2 drilling rigs are in operation in Ukraine, 1 drilling rig is in operation in Ethiopia and 6 drilling rigs are in operation in Pakistan.

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 10.8% appreciation of RMB against the USD from 21 July 2005 to 30 June 2023. 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 51.0% and 35.6% of the total revenue of the Company for the six months ended 30 June 2022 and the Interim Period, respectively.

Staff and Remuneration Policy

As at 30 June 2023, the total number of full-time employees employed by the Group was 3,254 (31 December 2022: 3,245). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2023:

On-site workers	2,064
Administrative	460
Engineering and technical support	449
Research and development	139
Sales, marketing and after-sales services	112
Company management	30
	<hr/>
	3,254

Employee costs excluding the Directors' remuneration totaled RMB446.4 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 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. The post-IPO share option scheme expired on 9 May 2023.

BUSINESS REVIEW

In 2023, despite some fluctuations in the international crude oil price caused by global economic uncertainty, the favorable international fundamentals provided plenty of support for the international crude oil price. Generally speaking, the international crude oil price still remained high, resulting in increased capital expenditure within the oil and gas industry, the number of orders also continued to increase. At the same time, China strengthened its cooperation with the Middle East and Central Asia, and held the "China-Arab States Summit" and "China-Central Asia Summit" in 2022 and 2023 respectively, to expand energy and economic cooperation. Under such favorable market environment, Hilong actively expanded both international and domestic markets and adopted a scientific management approach within the whole Group, so as to reduce costs and increase efficiency. While intensifying its

efforts in market development, the Company attached importance to scientific development and technological innovation, and has been gradually developing into an asset-light, digital and high-tech intelligent enterprise. The Company's overall operations in the first half of 2023 remained stable and achieved significant improvements in its business performance as compared with the first half of 2022. During the Interim Period, Hilong recorded a total revenue of RMB2,106 million, representing an increase of 24% compared with the first half of 2022. As there were sufficient projects for each business segment, the three segments, namely oilfield equipment manufacturing and services, oilfield services and offshore engineering services achieved growths in revenue to a relatively large extent.

As the COVID-19 restrictions and measures in China have been fully lifted and eased since January 2023, Hilong is no longer affected by the pandemic worldwide, and the overall market environment has become more favorable than last year, resulting in higher business volume of the Company. While vigorously exploring the market and actively striving for orders, the Company adopted various measures to gradually develop into scientific and digital management and has achieved remarkable results in key nations and regions. The Company also strengthened its cash flow management and took active measures to manage accounts receivable and inventory in order to enhance operating efficiency of assets, which secured a relatively stable cash flow in the first half of 2023. During the Interim Period, the Company secured a number of important orders, establishing a solid foundation for development for the second half of the year and the future.

Oilfield Equipment Manufacturing and Services

During the Interim Period, the revenue of the oilfield equipment manufacturing and services segment was RMB1,275 million, representing a significant increase of 27% compared with the first half of 2022. Under the easing of control policies on the COVID-19 pandemic as well as the global energy supply tensions due to the energy sanctions against Russia by the Western countries resulting from the geopolitical tension between Russia and Ukraine, and as upstream capital expenditures continued to increase, the global oil and gas drilling activities resumed, leading to a significant increase in the demand for oilfield equipment worldwide. Hence, sales volume of Hilong's drilling tool products increased significantly from the first half of 2022. Supported by the sufficiency of orders on hand for various drilling tool products such as drill pipes and heavy weight drill pipes, a sound foundation has been laid for business development in the second half of the year. Over the years, Hilong has continued to develop advanced technology and upgrade its production processes. Without compromising the existing scientific research results and achievements, Hilong has continued to improve the quality of products such as high-end drilling tools and equipment and services. Its product performance and the quality of services have reached the same level as that of its international competitors. In the first half of 2023, the oilfield equipment manufacturing and services segment contributed greater revenue for the Company and attained rapid business development in markets such as the United States, Canada and Middle East. While exploring development in the high-end market and ensuring the quality and quantity of products and services, the Company follows high-tech development strategies such as technological innovation and digital and intelligent transformation, attaches great importance to technological research and development and the building of a team of scientific research talents, and continues to increase its effort in research and development, so that the Company can constantly meet the increasing differentiated needs of both international and domestic customers.

Since 2023, benefitting from winning the case of litigations with respect to damages and investigations into the anti-dumping and anti-subsidizing of drill pipes and heavy weight drill pipes exported from China to Canada, Hilong's brand image in the Canadian market and the United States market has been enhanced, and its comprehensive strength as an international high-end drilling tool company has also been deeply recognized by its customers, which will play a very favorable long-term role for Hilong's development in Canada, the United States and even other markets. During the Interim Period, Hilong signed a series of contracts with ADNOC Drilling Company PJSC, Baoji Oilfield Machinery Co., Ltd., Sichuan Honghua Petroleum Equipment Co., Ltd., Arabian Drilling Company and Egyptian Drilling Company in respect of the supply of drilling tools and bottomhole assembly, and continued to deepen cooperation and development with strategic customers in key regions such as the United States, Canada and Middle East. Furthermore, the Company's products such as high strength sour service drilling tools have gained recognition from customers in the Middle East region, achieving market and business breakthroughs. The signing of these contracts and the execution of these projects not only marked greater breakthrough in the expansion of Hilong in the Middle East market, demonstrating the business opportunities that can be acquired by Hilong in the new markets and Hilong's strategy continuity to expand into the international market, but also illustrated the industry's recognition of the performance and quality of drill pipe products of Hilong. This further consolidate the Group's position in the markets including the Middle East, the United States and Canada, and demonstrated the continuous effort of the Group to cooperate closely with high-end customers and the recognition gained for its drilling tool production, delivery and service value.

Oilfield Services

During the Interim Period, the oilfield services segment recorded a total revenue of RMB589 million, representing a significant growth of 28% compared with the first half of 2022. Since 2023, the increase in capital expenditure has brought substantial benefits to the oil service industry and boosted the industry's prosperity. Hilong adopted scientific management measures to optimize its oil services in the overseas market. By measures of coordinating different business units in drilling and workover services, technical services and trade services and implementing localization of workers, the Company fully displayed the synergistic effects among different business segments, ensuring a stable growth of the performance of the oilfield services segment. With the efforts of Hilong's drilling and workover service team, the utilization rate of our drilling and workover rigs as a whole continued to increase compared with the corresponding period last year, and a number of drilling rigs under standby resumed operations. The Company also secured a number of new contracts for other drilling rigs in operation and renewed or extended contracts for these drilling rigs, which ensured the continuous workload in the future. While continuing to develop the conventional well drilling and workover markets, the Company also actively expanded turnkey drilling projects, so as to develop integrated services. For instance, our HL22 fleet has safely completed all work on the first drilling and completion turnkey well in Iraq since the establishment of the Company, demonstrating the enhancement in our capability of integrated drilling and well completion. During the Interim Period, the overall relocation speed of the drilling fleet increased compared with the corresponding period in 2022, and the non-production time rate (NPT) and zero-day rate of the drilling fleet presented a downward trend in recent years, which indicated that the Company's operating efficiency has been continuously and effectively improved. At the same time, leveraging the conventional well drilling and workover services, the Company

also actively participated in the bidding of other technical services and explored new business fields. The Company maintained stable development in fields of environmental technology services such as drilling and workover mud and rock fragments processing and well site recovery, coiled tubing business, production enhancement technology based on nanofluids flooding, refined managed pressure drilling (MPD) technology, directional and horizontal well drilling and other comprehensive technical services, and will further develop more diversified technical services businesses including well completion and production increase, drilling speed and efficiency improvement, oilfield environmental protection, as well as rotary steering technology. The volume of trade service business segment also had greater improvement compared with the first half of 2022. The oilfield service team actively strengthened the promotion of drilling, workover and automation business, and established close partnerships with important local customers in key areas to get 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 RMB94 million, representing a decrease of 47% from the first half of 2022. During the Interim Period, the line pipe technology and services segment secured project cooperation from a number of customers, actively promoted scientific research projects, and the progress of scientific research projects was in line with expectations. We continued to maintain the qualification of the existing high-tech enterprises and specialized new enterprises, and completed the application for registration as an innovative enterprise. The information technology business has completed the first stage of development of the AI-based pipeline inspection data analysis technology, and the Company has also obtained a number of intellectual property rights and completed the certification of ISO/IEC 20000-1 and other qualifications. The Company has won the bid or signed contracts for a number of projects, including software development, pipeline early warning system and personnel positioning system, and at the same time, the Company has been actively exploring conducting IT/digitalized business with various partners to expand into new fields.

Offshore Engineering Services

During the Interim Period, the offshore engineering services segment recorded a total revenue of RMB149 million, representing a remarkable 131% increase from the first half of 2022. During the Interim Period, centering on strengthening the two main business lines of “market development” and “project execution”, the offshore engineering services segment actively developed new business fields globally. Through the expansion of market channels and the construction of the bidding system as well as the improvement of bidding quality, the Company has achieved promising results in market development, with a significant increase in workload as compared to the first half of 2022 and good development momentum. The Company has recently entered into a contract in relation to offshore platform installation and submerged pipeline and cable laying with Lamprell Energy Limited and Lamprell Saudi Arabia LLC, pursuant to which Hilong Marine Engineering will provide them with engineering construction services, such as installation of new platforms, modification of existing platforms, laying of submerged pipelines, laying of submerged cables, replacement of platform risers, and transportation and installation of the above works. The signing of the contract

signifies that the Group's offshore oilfield services are highly recognized by the industry, which lays a good foundation for Hilong Marine Engineering to strengthen development of the Middle East oil and gas market. In Southeast Asia region, the Company has entered into a subsea pipeline laying contract with Mermaid Subsea Services (Thailand) Ltd, pursuant to which Hilong Marine Engineering will provide Mermaid Subsea Services (Thailand) Ltd with engineering construction services including subsea pipeline laying, expansion loops installation, riser and underwater installation of a pipeline end termination (PLET) system. This demonstrates that the Group's offshore oilfield services are recognized by leading players in the industry which will further benefit the Company's market development in the Southeast Asia region. During the Interim Period, the Company successfully completed the CGN offshore wind power installation turnkey project and CNOOC long-term agreement project. We also won the bid for key projects in regions including the Middle East and Thailand. Moreover, there were a number of projects waiting for bid evaluation results or in the process of project bidding, laying a good foundation for the construction and operation of contracts in the second half of the year. At the same time, the Company attaches great importance to high-tech research and development, and has applied for the qualification as a 2023 technology-based enterprise. Research on "Strengthening Offshore Construction Capability" and "New Technologies for Offshore Engineering", with emphasis on strengthening the construction of digitalization capability of offshore engineering, has continued to progress, with some research results having been achieved. On this basis, the Company focused on promoting the synergistic effects of the HMEL's Engineering Technology Center, Engineering Construction Center, Intelligent Control Technology Center and Offshore Installation Center (the "**Four Centers**"), to gradually develop an integrated and standardized management system for market communication, bidding management, database construction, etc.; perfecting the market management structure and recruitment of professional staff for various functions, expanding the bidding team and strengthening capacity building to lay a good foundation for the Company to realize the light asset business route based on the enhancement of high technology.

Technology Research and Development

Hilong has been adhering to the strategy of promoting sustainable development of the enterprise through high-tech innovation, and has implemented the Hilong Digital Transformation Project within the Group. We have already initiated business research of all departments, which will help enhance the overall digitalization level of the Group. In the first half of 2023, in terms of drilling tool products, the Company strengthened continual research on and promoted the application of high strength sour service, high strength and high torque drill pipe technology, and completed inspection and acceptance of projects including the research and manufacturing of HLNST special screw heads. The Company has secured orders for HLNST drill pipes with special buckle from the North American market, a market with promising prospects. We have developed HL135MS/HL130S higher strength sour service drill pipes on the basis of previous high strength sour service drill pipe projects which have achieved substantial results. We have signed a large order in US dollars in respect of HL125S high strength sour service, and have strengthened research and production of super high strength drill pipes. We have completed the software development of information management of drill pipes and drilling tools with radio frequency identification tags, and have currently received orders for drill pipes with radio frequency identification tags in the Middle East. We have also carried out research and development of intelligent drill pipes. With improvements

in drilling tool production process, equipment and systems, we have achieved cost reduction and efficiency enhancement, and together with the digitalized transformation of the Group, we have gradually carried out automatic and intelligent transformation of production equipment with systematic planning. This year, Hilong's HL125S high strength sour service drill pipes for complex drilling in sulfur-containing oil and gas field has been selected for the 2023 Shanghai Innovative Product Recommendation Catalog. Projects including 125S high strength sour service obtained the 2023 Hi-Tech Achievement Transformation Recognition. In terms of oilfield services, the Company has strengthened the localized development and promotion of the key drilling equipment components for fine pressure control, as well as the promotion and application of rotary steering technology and nanofluids flooding production enhancement technology, etc. In terms of information technology business, projects including research on application of technology for intelligent patrolling robots have made intermediate progress. In terms of offshore engineering, we have carried out several research projects including offshore engineering technology and offshore engineering digitalization, such as research study on near shore section pipeline landing, development of computer program for ship tilting experiment, visualization study of offshore installation of wind power project, and digital commissioning system study, etc. Hilong will continue to improve on the basis of its existing scientific research achievements, engage in continuous innovation and research and development, and promote the long-term development of the enterprise with the power of high technology. During the Interim Period, another two companies under the Hilong Group were granted the qualification of "Highly Specialized and Innovative" (專精特新) enterprise of Shanghai. At present a total of seven companies have been granted this qualification, demonstrating the outstanding performance in specialization, refinement, distinctiveness and novelty of a number of business segments under the Hilong Group, fully reflecting Hilong's technological advantages and brand competitiveness driven by independent research and development and innovation. In the future, Hilong will continue to adhere to the development concept of independent innovation, make deep efforts in the field of high-end oilfield equipment and onshore and offshore oilfield services, continue to give full play to the advantages of the world's leading oilfield equipment and service provider, and actively contribute to the upgrading of the high-tech industrial segment in the advanced manufacturing industry.

OUTLOOK

We believe that, in general, the production capacity cycle has triggered energy inflation, and for the traditional oil and gas resources industry, capital expenditures are the main reason for limiting crude oil production. In the past few years, due to various factors such as the impact of the pandemic, the global capital expenditure for crude oil is insufficient, and currently the global crude oil supply elasticity is decreasing, while the demand for crude oil is still growing. The world will continue to face the problem of tight crude oil supply and demand for several years, and in the medium to long term, the oil price will continue to remain at a medium to high level. The first monthly oil report released by the International Energy Agency at the beginning of the year also pointed out that global oil demand is expected to hit a new high in 2023. With the growing cooperation between China and the Middle East, Central Asia and Southeast Asia, the first China-Arab States Summit was held at the King Abdulaziz International Convention Center in Riyadh, the capital of Saudi Arabia. In May 2023, the first China-Central Asia Summit was held, during which China and the five Central Asian countries reached seven multilateral documents, including the Xi'an Declaration of the China-Central Asia Summit (《中國－中亞峰會西安宣言》) and the Outcome List of the China-

Central Asia Summit (《中國－中亞峰會成果清單》), and signed more than 100 cooperation agreements in various fields. This has brought us great opportunities in foreign markets. Hilong will focus on developing key customers in the United States, Canada, the Middle East, and Southeast Asia, and endeavor to continue to increase our share of the international market, and we have already secured a relatively large number of orders, and the workload is expected to be sufficient throughout 2023. In respect of the domestic market, China has entered the fifth year in implementing the seven-year action plan for oil and gas industry which spans from 2019 to 2025. As mentioned in the Plan for Accelerated Development of Domestic Exploration and Production for 2019-2025, the CNPC will make further investment in risk exploration, amounting to RMB5 billion each year from 2019 to 2025. It was mentioned in the Next Seven-Year Action Plan for CNOOC's Strengthening of Domestic Exploration and Development (《關於中國海油強化國內勘探開發未來「七年行動計劃」》) that the amount of exploration work and proven reserves shall double by 2025. At the same time, China's goals of "striving to achieve carbon peak by 2030 and carbon neutrality by 2060" (力爭2030年實現碳達峰、2060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. We believe that the domestic and overseas oil and gas industry markets are generally promising.

In terms of the international drill pipe market, the Company will continue to focus on promoting high value-added products of drilling tools supplied to high-end customers, while ensuring the production quality of special high-end products and making greater efforts in promoting automatic and intelligent transformation and technology introduction of equipment and drilling tool production lines. The Company will deeply develop high-end markets in the Middle East, United States and Canada, and continuously increase its market share of high-end products. The Company will actively follow up the drilling tool orders of key customers to further enhance its market reputation of drilling tools. While continuing to develop high-end markets and design products such as super high-strength, corrosion-resistant and fatigue-resistant drilling system, the Company will strengthen the research and development as well as promotion and application of products such as HLNST special buckle, HL130S and HL135MS high-strength sour service drill pipes, drill pipes with eco-friendly screws, drill pipes with radio frequency identification tags and intelligent drill pipes. For the domestic drill pipe market, while actively grasping the existing business opportunities, Hilong will vigorously develop differentiated markets, accelerate the automatic and intelligent transformation as well as technology introduction of equipment and production lines, and realize the traceability control of the entire production process, in order to provide customers with various types of drilling tools suitable for unconventional oil and gas resources exploration that meet their differentiated needs.

Regarding the oil services business, Hilong will complete operations for traditional well drilling and workover projects in mature markets including Nigeria, Ecuador, Iraq and Oman with assurance on quality and quantity, and continue to secure for signing of new contracts. Moreover, Hilong will strive to achieve further breakthroughs in "existing markets with new business" in these regions, and will actively develop various types of business, including drilling turnkey, oilfield environmental protection, nanofluids production enhancement, drilling tool repair, and trading services, to provide more diversified and distinctive services on the basis of traditional drilling and workover services. At the same time, we will continue to expand into new markets, reach new customers and make new progress in regions including the UAE, Libya, Malaysia and Central Asia as well as in China. We will fully utilize the

advantages of drilling and workover rig platform, strive for business expansions, seize opportunities to optimize and adjust the layout of drilling machines, and improve profitability and reduce the scale of assets. We will leverage various platforms to generate sales of domestic products and expand trade volume, while enhancing capability for drilling and workover contract services or integrated project management. We will develop engineering and technical services based on the principles of business scale and business continuity, and build technical business teams and strive to introduce and form our own core technologies. On the basis of consolidating the existing business, the Company will actively expand the technical services of directional wells and horizontal wells with RSS (Rotary Steering System) as the core. At the same time, the Company will develop the managed pressure drilling (MPD) service and coiled tubing business as new business growth points, so as to strengthen external cooperation and research and strive for achieving the construction of market platform. Without limitation to drilling and workover business, the Company will also actively explore sales of drilling and workover rigs equipment and spare parts, and tubing and casing trading business to strengthen the links and synergies among various businesses, so as to support drilling and workover services, technical services as well as external cooperation, further consolidate customer relationships and achieve integrated management of oil services business and more business breakthrough.

For offshore engineering services, an integrated and standardized management system for market communication, bidding management and database construction will be formed to strengthen the mechanism for bidding evaluation, bidding risk control and response mechanism. We will improve the marketing management structure and recruitment of professional staff in various functions to expand our bidding team and capacity building. We will intensify market development for EPC projects and speed up the market layout and construction in the Middle East and Southeast Asia. We will enhance offshore construction capability and offshore engineering technical capability, with a focus on strengthening the construction of offshore engineering digitization capacity. We will actively make an effort in contracting and implementing projects such as engineering commissioning and digital intelligence in the international market. In the second half of 2023, on the basis of continuing stable installation and submerged pipeline laying business, the Company will actively expand offshore oil and gas processing business and strengthen offshore engineering project management and clarify the functions and responsibilities of the Four Centers. The Company will enhance engineering construction and technical services including offshore engineering construction facilities, land-associated gas recovery and land wellhead oil and gas processing, and focus on new energy business such as offshore wind power, gradually forming capability of turnkey project bidding quotation, project management and technical support. The Company will form a complete professional system by making greater efforts in talent introduction. At the same time, based on the current technical capabilities and performance base with a focus on application integration and application innovation, the Company will provide low-input, high-yield products and services. We will continue to upgrade and maintain the charter system so that it can adapt to the domestic and international markets, broaden the types of business and deepen the focus on key markets. We will adhere to the path of innovation and research and international development and continue to enhance EPCI (engineering, procurement, construction and installation) integrated service capability, including the overall digitization level, so as to continuously enhance Hilong's leading position in domestic and international markets.

Events after the End of the Interim Period

Save as disclosed in this announcement, 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 Part 2 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout 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 despatched 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, 25 August 2023

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.