

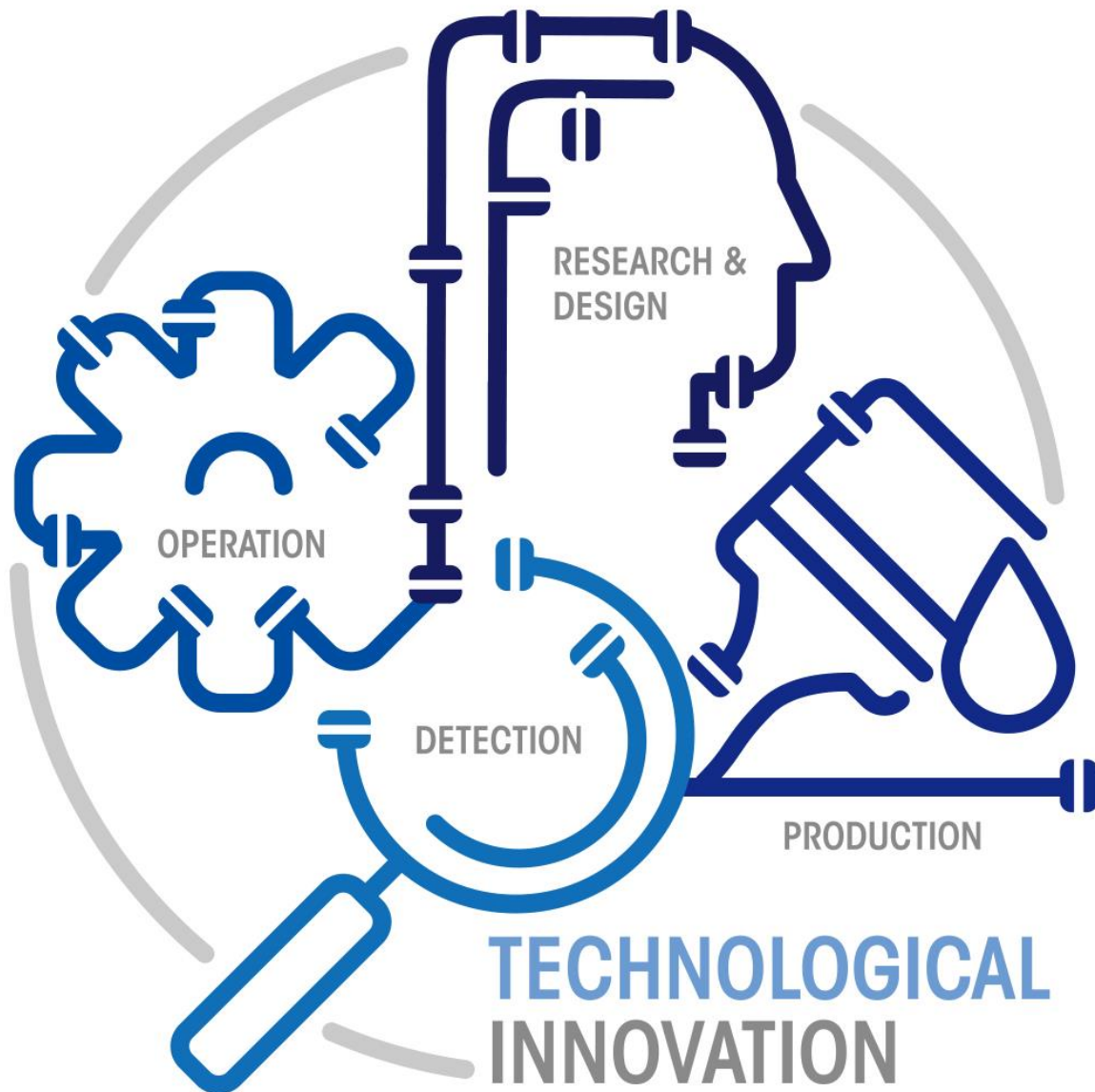


海隆控股有限公司\*  
Hilong Holding Limited

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 1623

\* For identification purpose only

## 2018 Annual Results Presentation



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## Results Highlights

# Results Highlights

During the year, Hilong achieved steady business growth, excluding FX gains and losses, net profit amounted to RMB194 million, representing an increase of 65.2%. Good performance across all segments.

## Oilfield services

- ❖ Maintained healthy operation and stable revenue in drilling services
- ❖ Continued improvement in rig utilization
- ❖ Completed the relocation of one rig, helping to achieve 31% revenue growth in drilling services
- ❖ Good progress in new projects. The two PDO rigs started drilling within the year and the BP projects commenced operation in 1Q 2019
- ❖ Integrated well services continued to contribute to the segment growth

## Line pipe technology & services

- ❖ Overall revenue remained stable. High end business achieved strong growth and product mix improvement resulting significant hike in segment gross profit margin
- ❖ Breakthrough in CWC business, with large growth potential. Technical breakthrough in CRA, significantly expand its scope of application
- ❖ Achieved breakthroughs in key areas which will help the integrated line pipe services strategy

## Oilfield equipment manufacturing & services

- ❖ Drill pipe and related products remained stable, proactively to reduce volume and enhance quality
- ❖ As there were huge overseas' demand, the company focused to serve premium clients and high-end orders, hence non-API product penetration improved in overseas markets
- ❖ Domestic market, a strong sign of recovery, especially during the second half of a significant increase in volume and ASP
- ❖ OCTG coating services laid by strong overseas growth with the commenced of new facilities

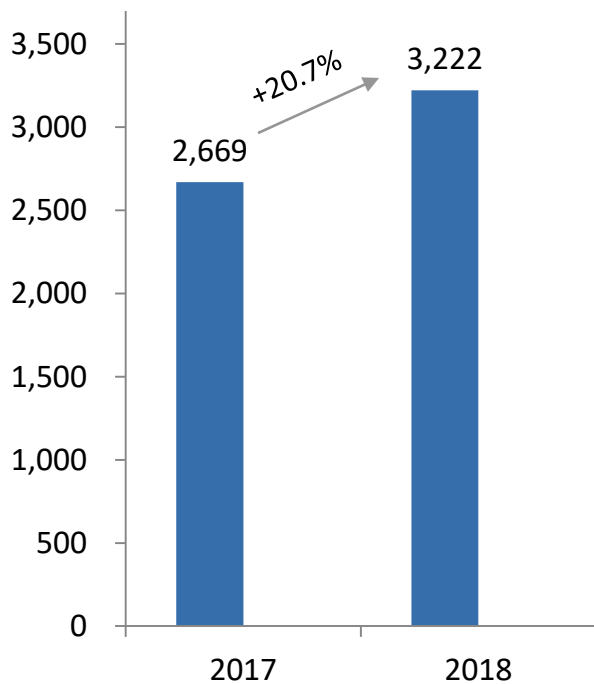
## Offshore engineering services

- ❖ High utilization of HL106, resulting in three consecutive years of recovery. Revenue reached RMB 330 mm
- ❖ Completed CPOC project in Thailand and Sepeat project in Malaysia and BP project in Indonesia
- ❖ Vessel management contract of "PJW3000", generated additional revenue
- ❖ Clear sign of market recovery with over RMB 400 mm new contract signed

# Financial Overview

## Revenue

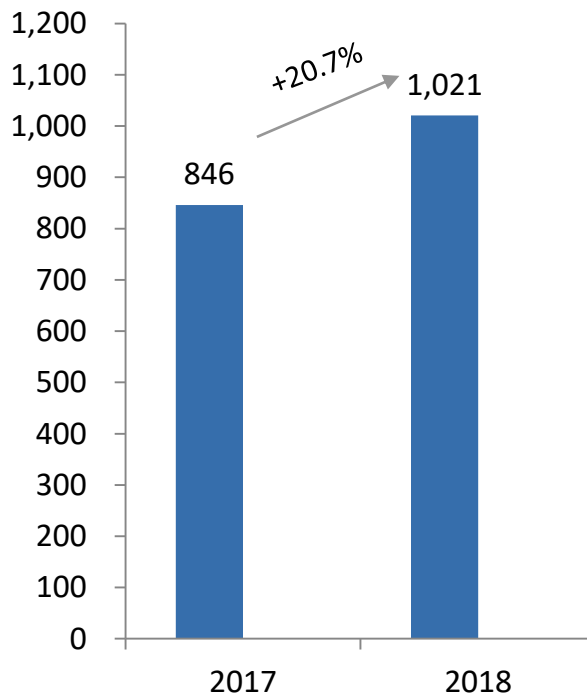
RMB mm



■ Total Revenue

## Gross Profit

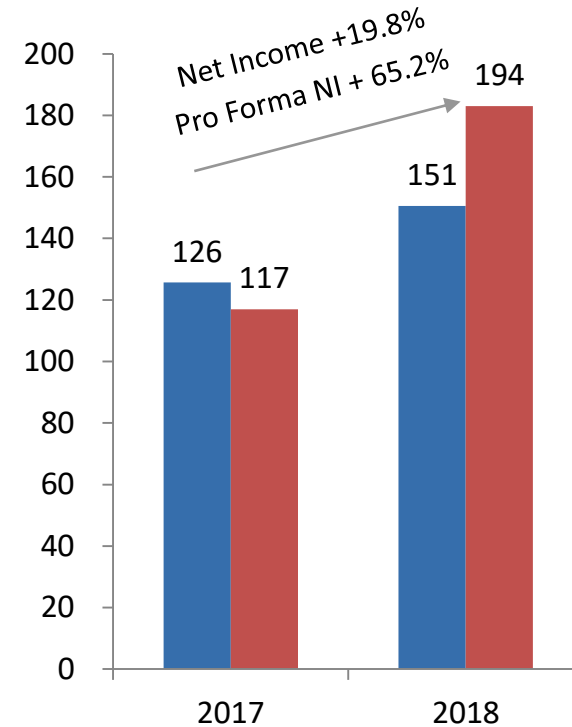
RMB mm



■ Gross Profit

## Net Profit

RMB mm



■ Net Profit  
 ■ Pro forma NI (Excluding the exchange gains and losses) <sup>(1)</sup>

2018 revenue amounted to RMB3.2 billion, an increase of 20.7% compared to 2017  
 Excluding FX impact, Pro forma net income reached RMB194 million, a year-on-year increase of 65.2%

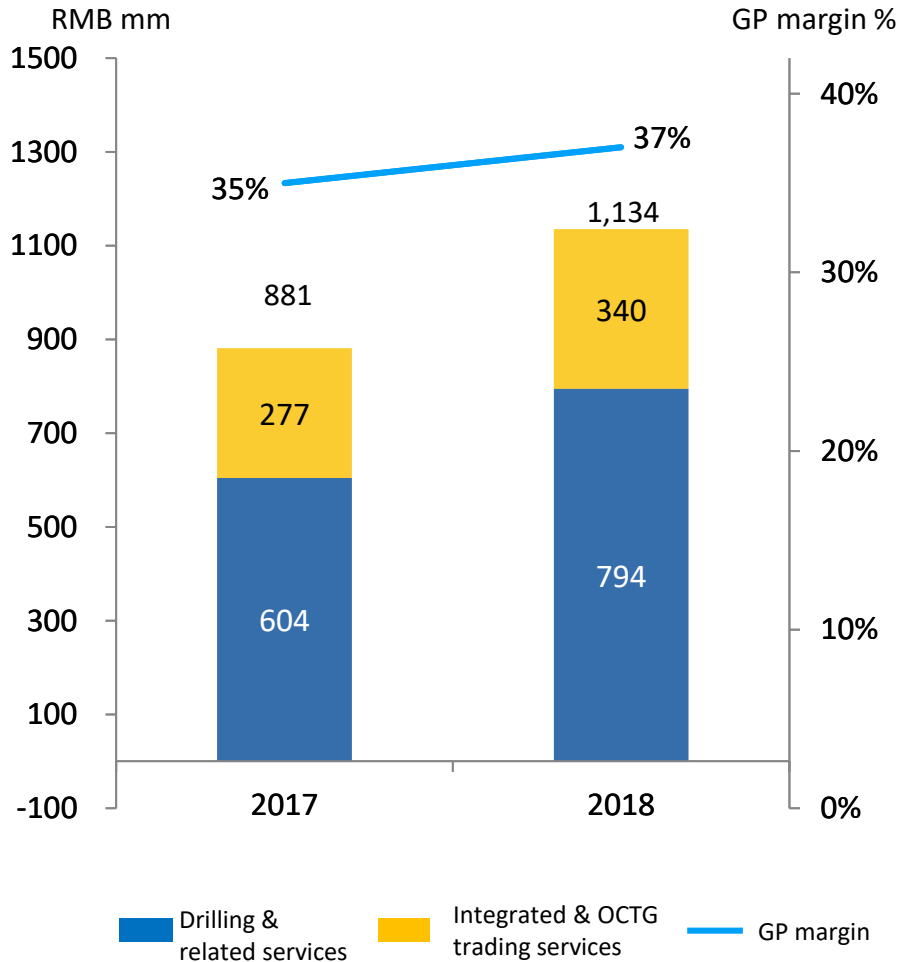
1. Pro forma NI calculated by using NI subtracting net FX impact and then multiply by 1-effective tax rate. (net FX impact in 2017 and 2018 are +9 MM and -43 MM respectively)

# Business Review

# Oilfield Services

Segment Revenue: +29%

**Strong Growth in Drilling Services,  
driving the margin recovery**



Achieved strong growth in traditional drilling services, with revenue increased by 31% yoy

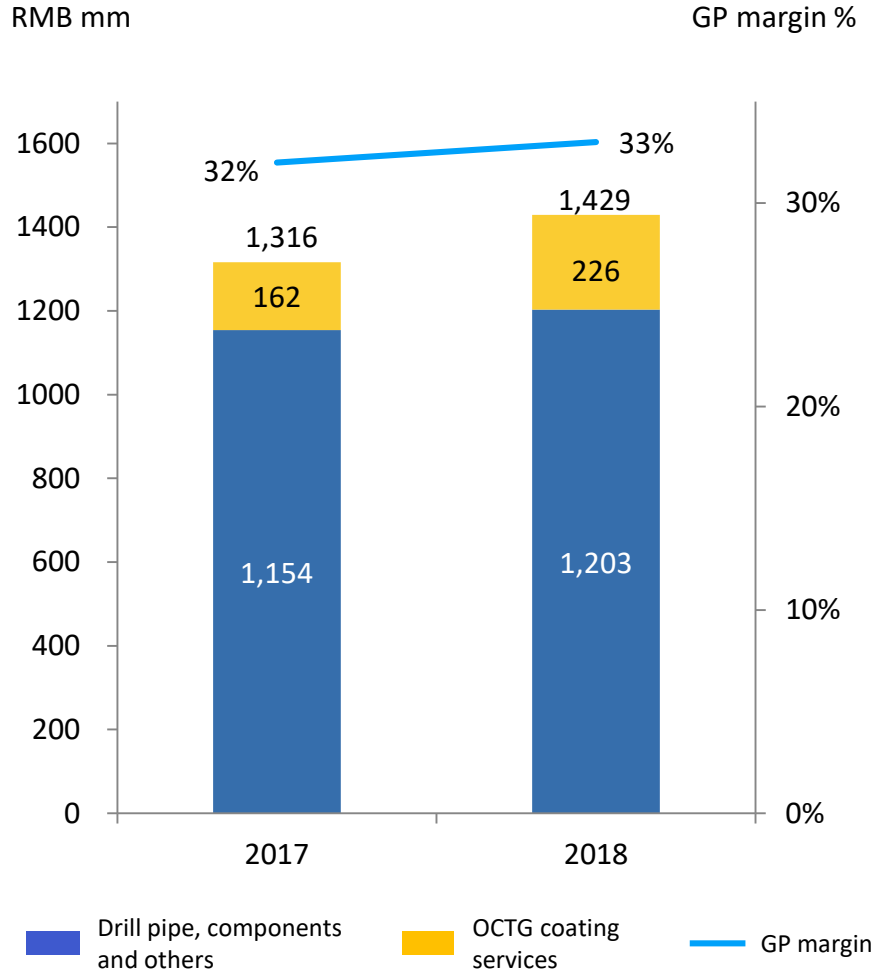
- ❖ Steady improvement of existing rigs utilization lead to growth in drilling services
- ❖ Smooth renewal of existing contracts and completed the relocation of one rig would help to further improve utilization
- ❖ Successfully engaged new customers, won new contracts could provide core driver for future growth
- ❖ Signed two high end mechanize land rig contract with PDO. Which commenced operation before the end of the year, was a main driver behind the revenue and margin growth during the second half
- ❖ Sign two workover rigs service contracts with BP in Iraq. Further received recognition by first-tier international customers
- ❖ Integrated oilfield services continued to make significant contribution to the segment growth



# Oilfield Equipment Manufacturing and Services

Segment Revenue: +9%

Less Quantity, More High Quality Business



## Drill pipe and related products

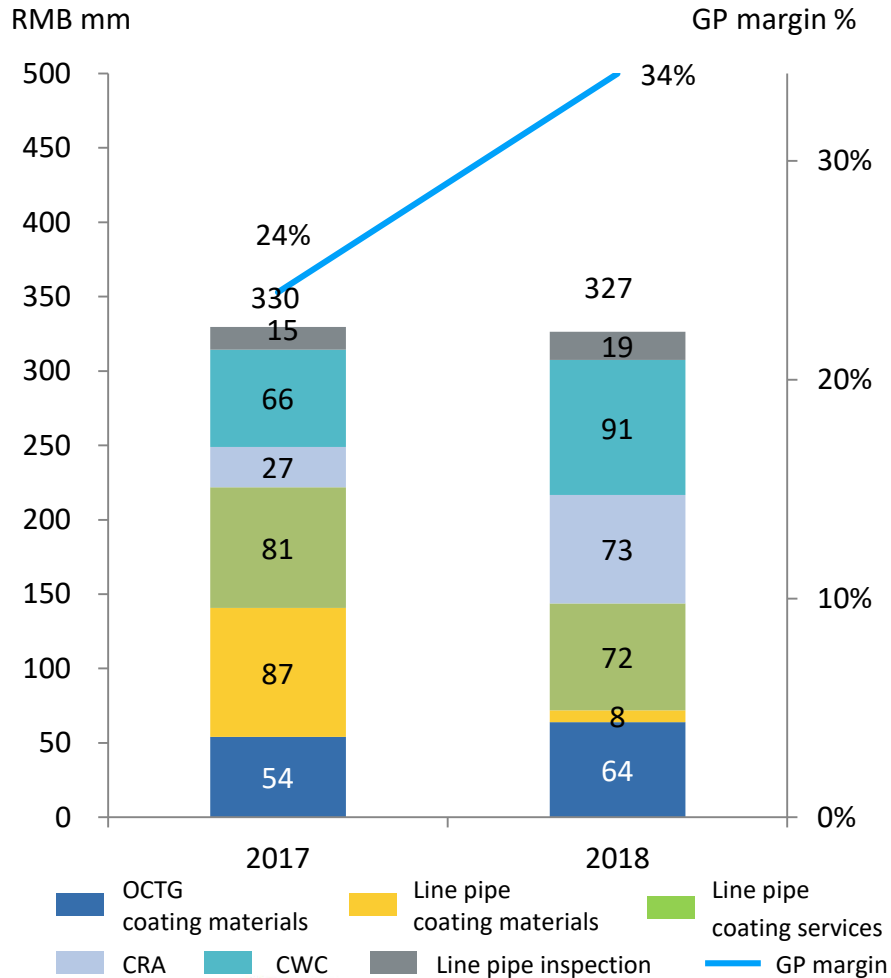
- Stable business, strong demand from the international markets allowing the company to be more selective in our production to reduce some low quality demands and focus in high quality demands. Despite overseas production reduced to 45,600 tons, achieved improvement in overall margin and ASP
- Domestic market saw recovery, especially during the second half with notable growth in volume
- Contribution of non-API continued to improve

## OCTG coating services

- Breakthrough in overseas development. New Russian OCTG coating plant saw encouraging results. Demonstrated Hilong's advanced techniques and market edges
- Strong overseas growth helped to achieve 40% growth in this business

# Line Pipe Technology & Services

## Improved Product Mix, Sharp rise in GP Margin



## Breakthrough in High End Products

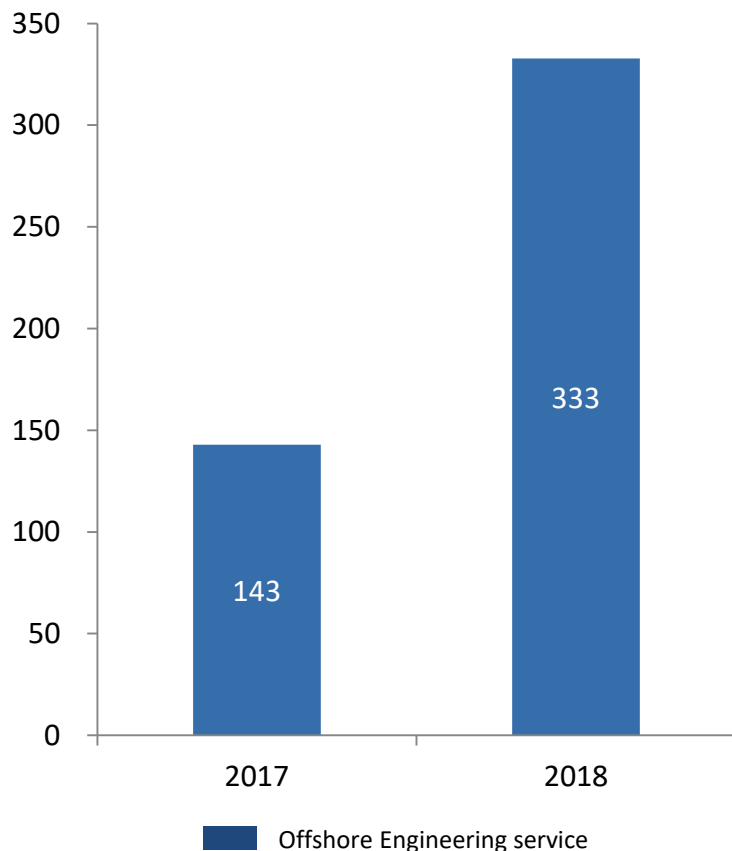
- Driven by strong overseas OCTG coating services demand, revenue of OCTG coating material recorded large growth
- Breakthrough in several High End Products
  - Technical breakthrough in CRA helped to expand its scope of application, resulted in 170% growth in revenue
  - Technical breakthrough in CWC also helped to achieve significant growth in production level
  - Achieved market breakthrough in the Bangladesh project with the total contract value over RMB173 million. More than half of contract has been completed within the year and the remaining will be completed within 2019. More recently, the group has been awarded a new order with total contract value RMB67.6 million, which will provide strong support for the business growth in 2019
- Line pipe inspection services achieved breakthrough in several areas. Such as Line pipe inspection equipment for different diameter; data analysis software for line pipe inspection; MFL certification and construction of our own inspection testing facility. The business is expected to become an important profit driver in the near future

# Offshore Engineering Services

**Segment Revenue: + 133%**

**Offshore Engineering market recovering steadily;  
2018 record high utilization**

RMB mm



❖ CPOC Thailand project

❖ Transportation and installation of 3 platforms and subsea pipeline; realized revenue of RMB93.07 million

❖ Sepeat Malaysia project

❖ Installed the key components for 1 platform, which required extremely high installation accuracy; realized revenue of RMB50.55 million

❖ Indonesia Saipem project.

❖ Provided ship rental services to BP. An important test of the professional level of Hilong 106's equipment and crew

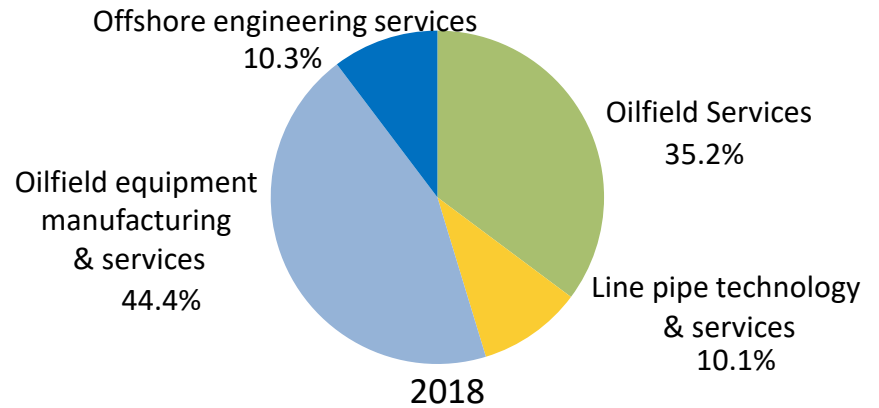
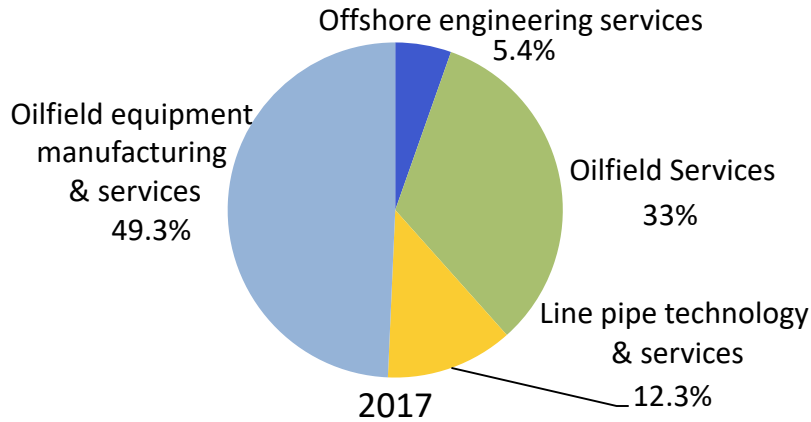
❖ Acquired shipping maintenance contract of "PJW3000"

❖ Significant market recovery in 2019. Huge potential demand in the surrounding offshore engineering services. Signed contracts on hand amounted to RMB 400 million

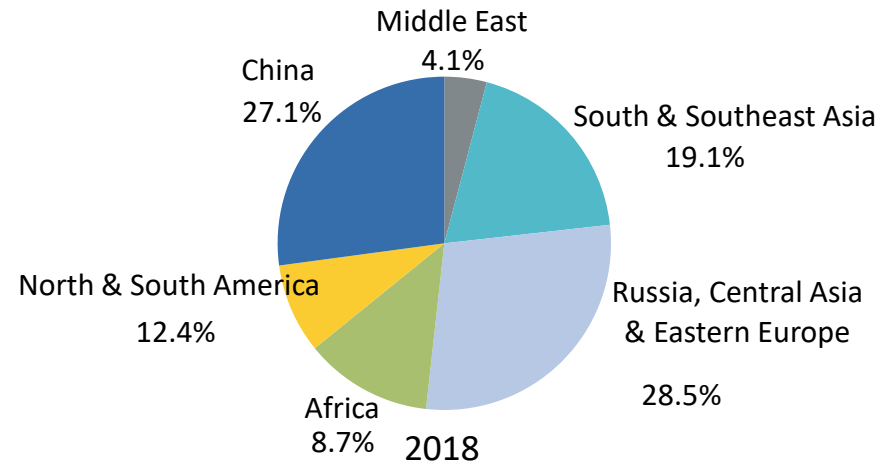
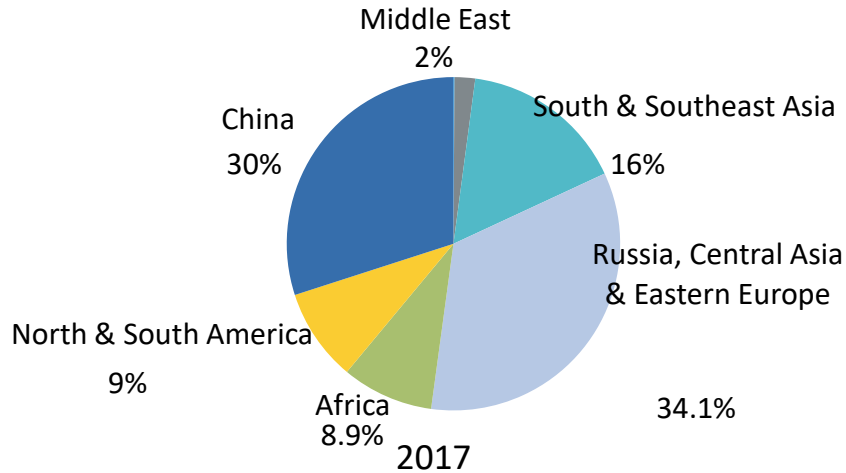
## Financial Performance

# Revenue Breakdown

## Revenue Breakdown by Segment

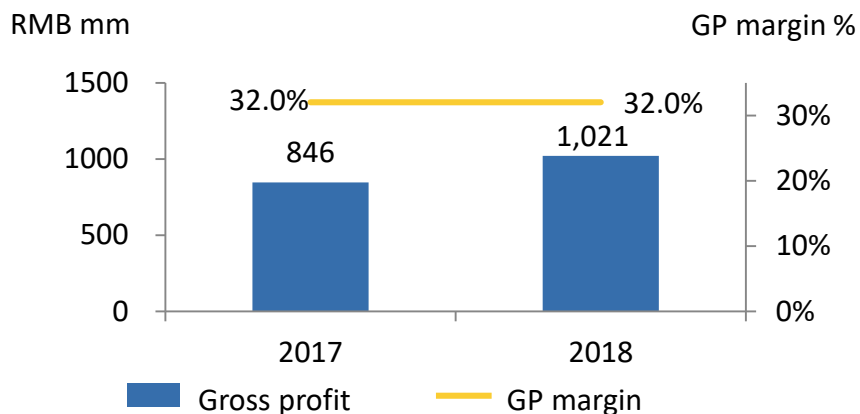


## Revenue Breakdown by Geography

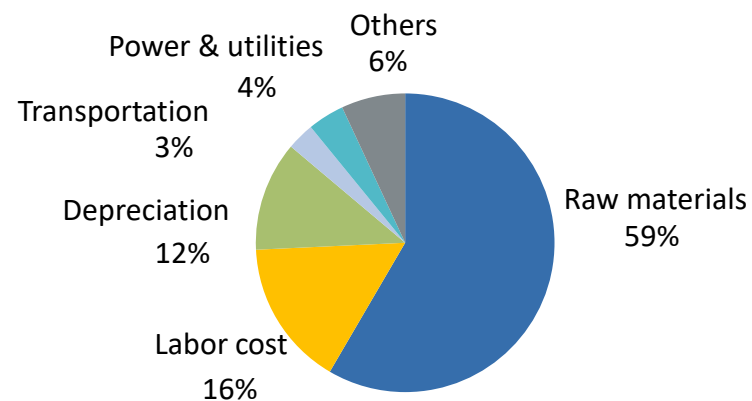


# Cost and Gross Profit Analysis

## Slight Decrease in Gross Profit Margin



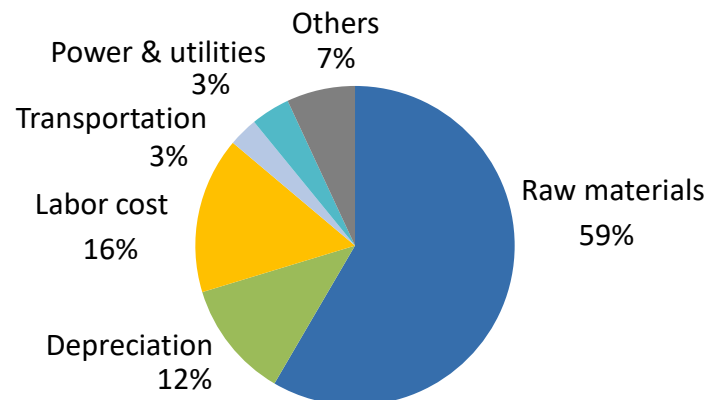
## Total Cost in 2018: RMB 2.2 billion



## Account Receivable

'000 RMB	2017	2018
- Within 90 days	814,464	<b>1,000,596</b>
- over 90 days and within 180 days	195,656	<b>212,306</b>
- over 180 days and within 360 days	332,458	<b>371,425</b>
- over 360 days and within 720 days	266,502	<b>135,565</b>
- over 720 days	254,437	<b>88,027</b>

## Total Cost in 2017: RMB 1.8 billion

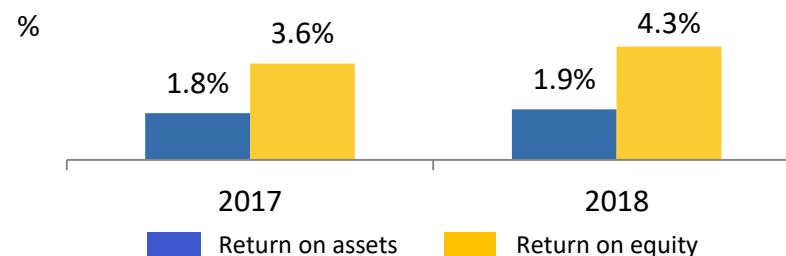


# Capital Structure and Return Rate

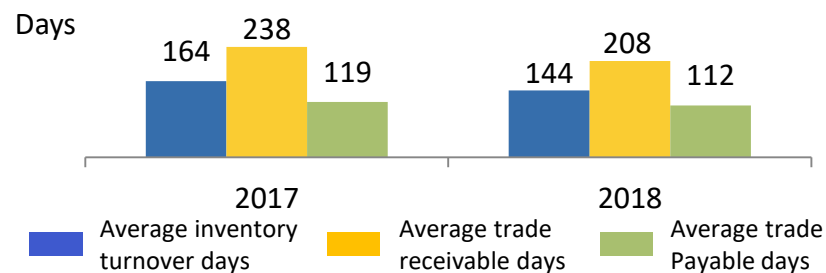
## Capital Structure

	2017	2018
RMB mm		
Cash & cash equivalents	389	662
Current assets	3,708	4,035
Total assets	7,151	7,900
Short-term debt	544	576
Long-term debt	1,905	2,495
Total liabilities	3,687	4,378
Shareholders' equity	3,232	3,309
Minority interest	232	213
Total equity	3,464	3,522

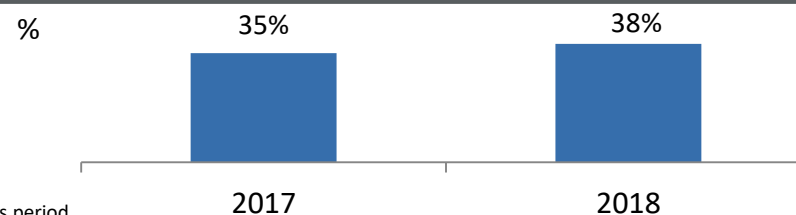
## Return on Assets & Return on Equity (1)



## Turnover Days for Current Assets (2)



## Gearing Ratio: Net Debt/Total Capital (3)

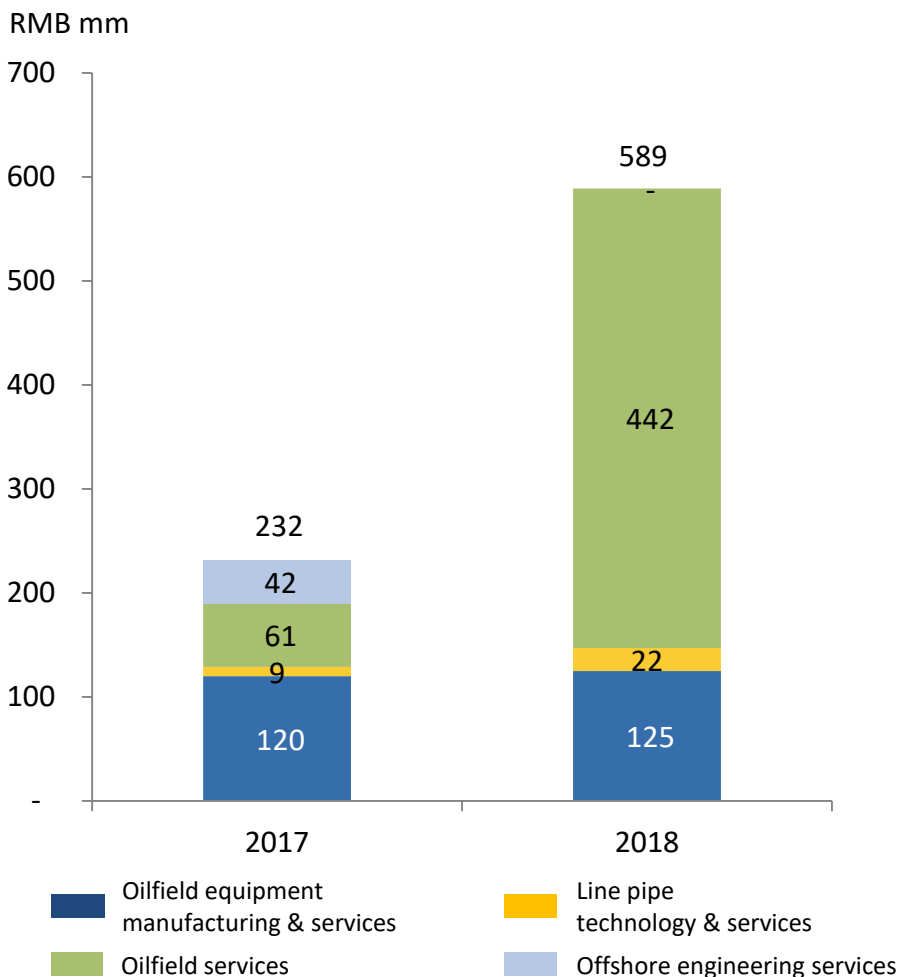


Note:

- Return on assets = net profit / ending balance of total assets;  
Return on equity = net profit / ending balance of total equity
- Average inventory days = days in the period \* average inventory of this period / cost of sales of this period  
Average trade receivables days = days in the period \* average net trade receivables of this period / revenue of this period  
Average trade payables days = days in the period \* average trade payables of this period / cost of sales of this period
- Net Debt = Long term debt + short term debt – cash and cash equivalents and restricted cash, total capital = total equity + net debt

# Capital Expenditure

## Capital Expenditure Breakdown



## Major Capital Expenditure Projects

- Oilfield Services
  - 2 drilling rigs for PDO contract and 2 workover rigs for BP contract
  - Normal maintenance of rigs
  
- Line pipe technology & Services
  - Investment in line pipe inspection equipment
  
- Oilfield equipment manufacturing & Services
  - Coating production line in Russia & equipment
  - Drill pipes for the rental services, amount to around RMB 60 mm





## Business Outlook



# Key Development Strategy: Integrated Line pipe Services



## New Product Technology Development

- The group has also been paying attention to the huge potential in the field of line pipe market. It has launched a two dimension development strategy --- developing new high end product technology; while expending more integrated level of services
- Leveraging on the strength of existing product and services in line pipe coating, the group has achieved technical breakthrough in CWC and CRA products which have gained good results in the market

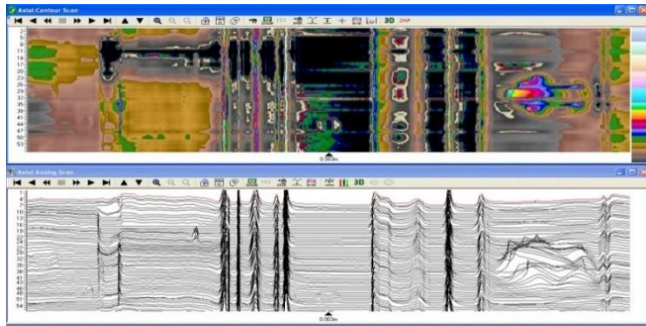
◆ Main Application of CWC		
	Project Name	Length (KM)
1	Bangladesh Project	223
2	BP Oman Project I	62
4	Australian DBP Gas Pipe Line Project	437
5	CNPC Gas Pipe Line Project	≥1800
6	Sinopec Gas Pipe Line Project	≥630
7	BP Oman Project II	180

◆ Main Application of CRA		
	Project Name	Weight (Ton)
1	Turkmenistan Project	533
2	Ground engineering of Keshan-2 block	993
3	CNPC Natural Gas Division duplex metal CRA Project	61
		1272.50
4	Huang Yan Oil and Gas Field Group (Phase II)	811.28

# Key Development Strategy: Integrated Line pipe Services

## Enhance Pipeline inspection service capability

- Pipeline inspection service is a core technology in the integrated line pipe services. However, domestic market development has been set back due to the lack of inspection equipment and technology which were both under foreign company's control. The group has strengthened its R&D effort in this area. We have made a breakthrough in the development of inspection equipment; data analysis software; MFL certification and development of our own testing field. Clearing the way for future growth
- Successfully applied in several domestic projects



	Pipe Line Name	Client Name	Diameter	Length (km)
1	Shaanxi-Beijing third line	CNPC Beijing Gas	Φ1016	229.3
2	Datang coal gas pipe line	CNPC Beijing Gas	Φ914	65
3	Fangqiao-Yaodian pipe line	Yanchang Petroleum	Φ508	10
4	Longwangmiao trunk line	PetroChina Southwest Oil and Gas Branch	Φ508	42
5	Talun Gas pipe line	PetroChina Tarim Oilfield Branch	Φ813	273
6	Longzhong pipe line	CNPC Chongqing	Φ559	77.46
7	CEP Center of Chunxiao Oil and Gas Field	CNOOC Chunxiao oil and gas field	Φ304.8	24.9

# Key Development Strategy: Integrated Line pipe Services

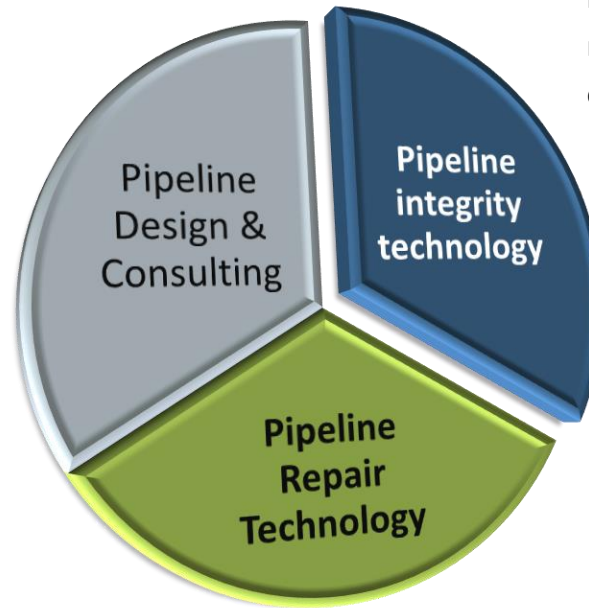
## Pipeline Design & Consulting Track Record

	Pipeline Name	Client Name
1	West-East Gas pipe line (Jiangxi Section)	West-east gas pipeline project department
2	Tanzania submarine gas pipeline	CNPC
3	Gas supply pipeline project	Dagang oilfield natural gas co., Ltd.
4	City Gas in Songming County, Kunming City	Kunlun Gas Songming Branch

❖ Pipe plugging and replacing with non-stop transmission pressure-opening hole technology, which could be apply to:

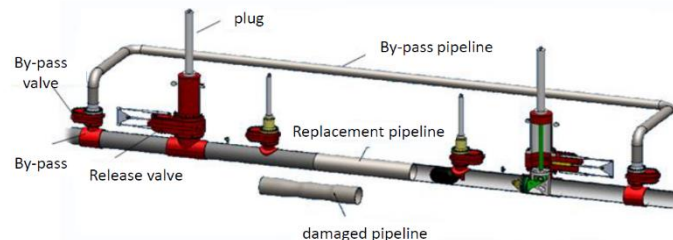
- Pipeline leakage rescue
- Mechanical damage rescue
- Initial setting rescue
- Pipeline explosion rescue

❖ Using system platform to integrate specialized technical means including: pipeline design; construction; maintenance & repairment and inspection, to provide a integrated whole life cycle management system ensuring the safe; reliable and economic operation of the pipeline



## Pipeline integrity technology Track Record

Pipeline	Client Name	Medium
Wuyan line	Shaanxi Yanchang oil	Crude Oil
Shaanxi-Beijing third line	CNPC	Natural Gas
West-east pipeline	CNPC	Natural Gas
Longzhong pipe line	PetroChina Southwest Oil & Gas Branch	Natural Gas

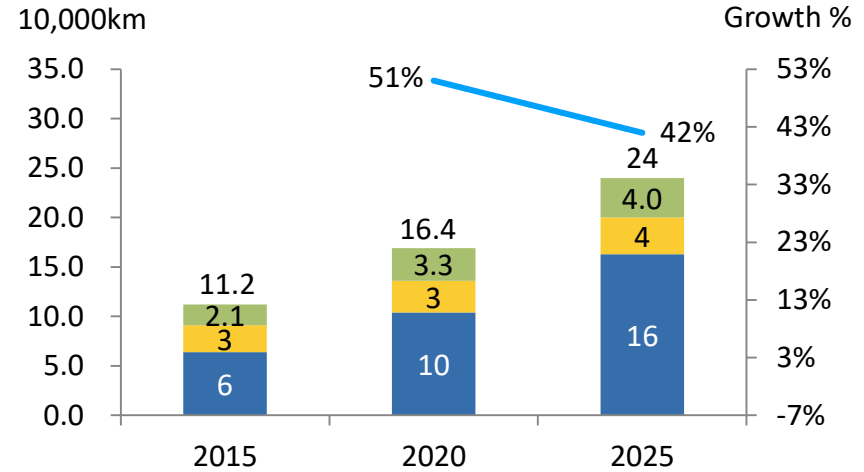


# Market Opportunity

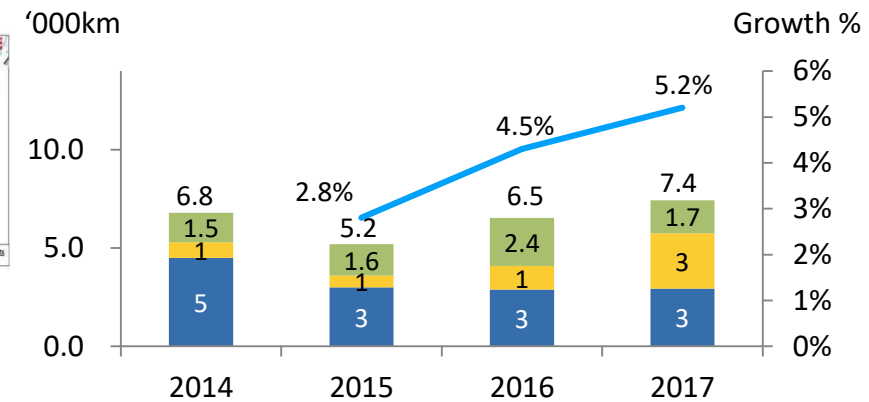
## Mid to Long term Oil and Gas Pipeline Planning



### Mid to Long term Oil and Gas Pipeline Planning<sup>1</sup>

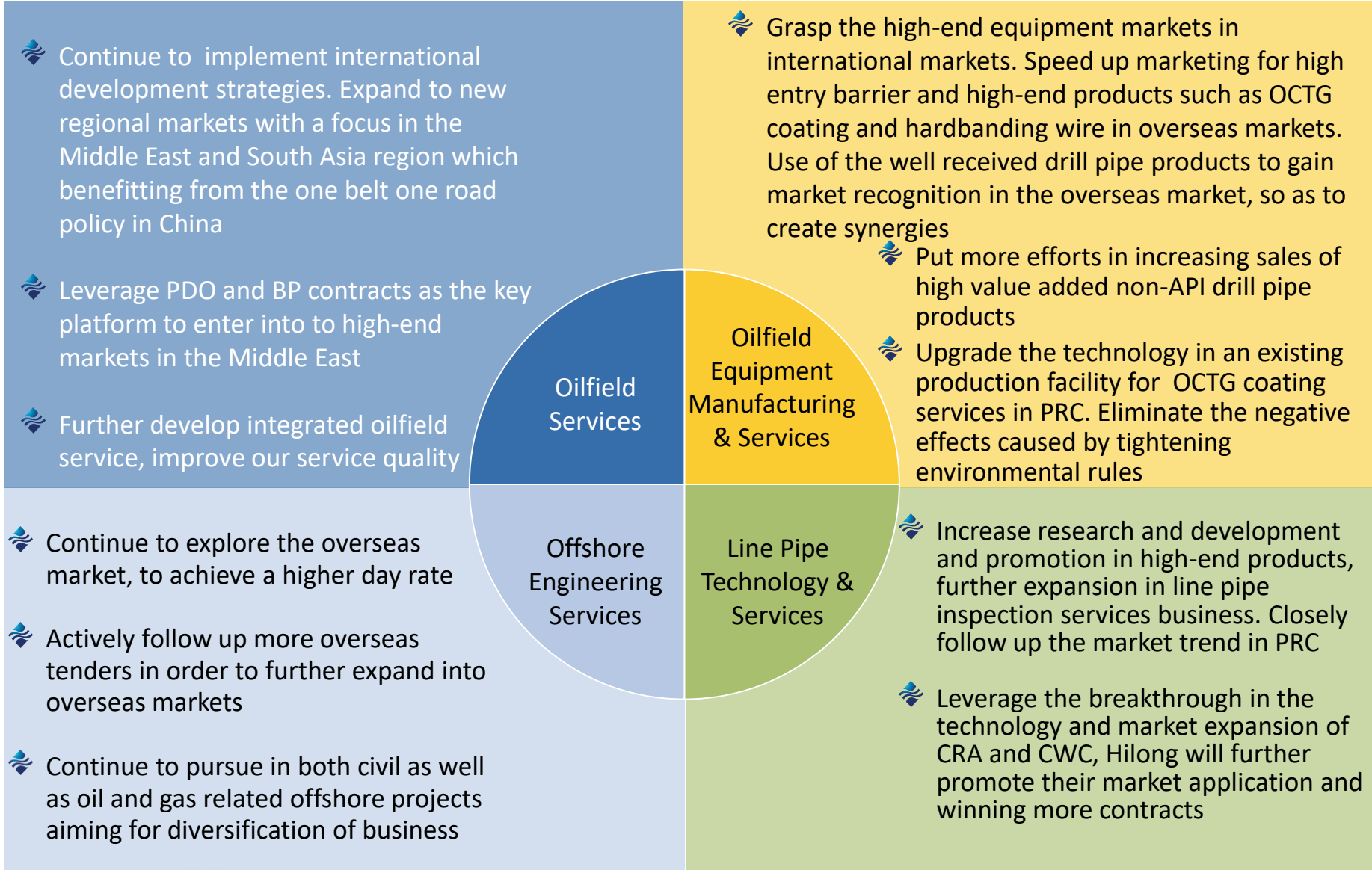


### Annual Increase of Oil and Gas Pipeline<sup>2</sup>



■ Natural gas pipeline     ■ crude oil pipeline  
■ petroleum product pipeline     — Growth rate

1. source: 《Mid to Long Term Oil and Gas Pipeline Planning》2017  
 2. source: State Statistical Bureau





Q & A

