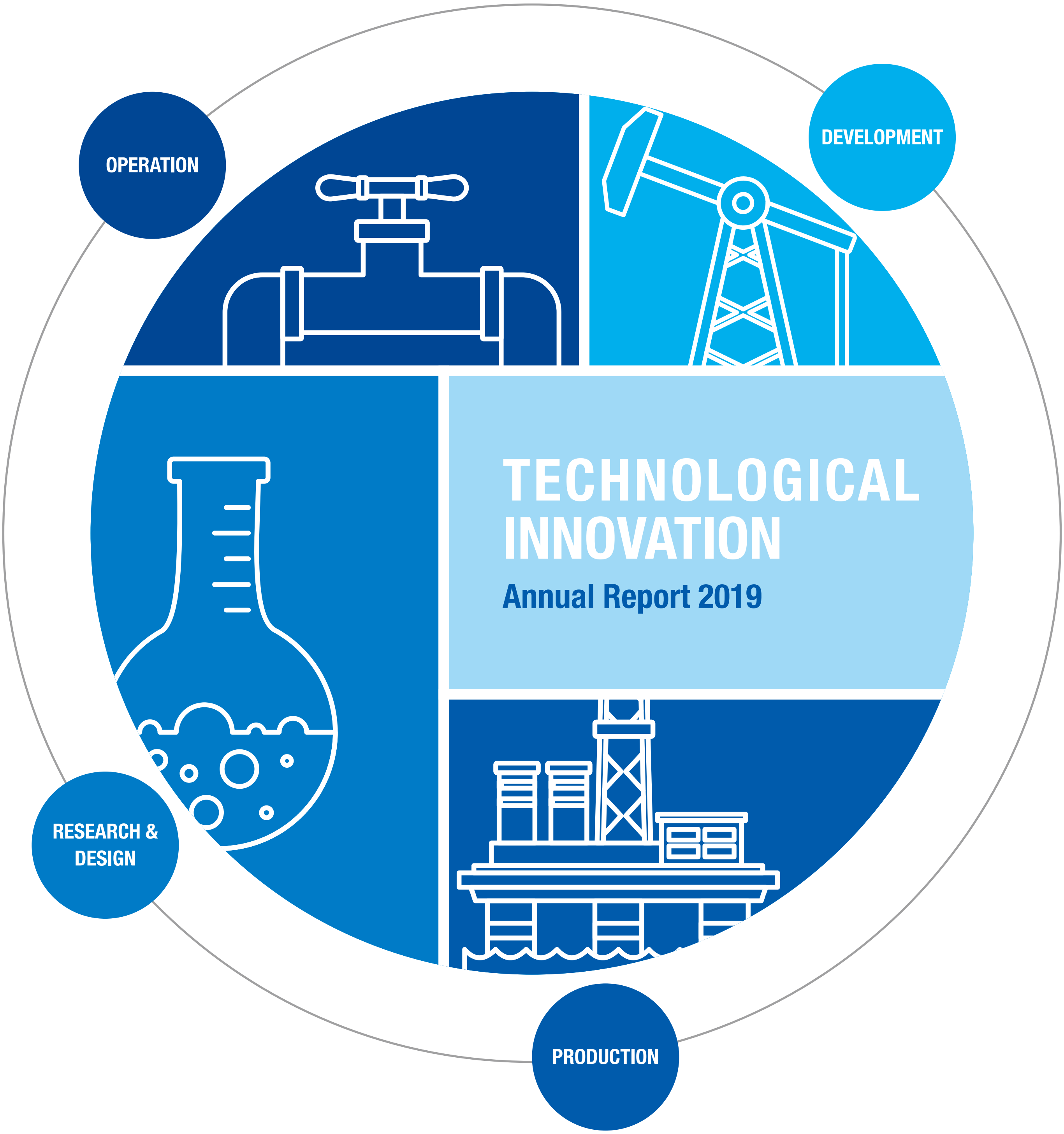
海隆控股有限公司*

Hilong Holding Limited

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



TECHNOLOGICAL INNOVATION

Annual Report 2019

* For identification purpose only

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Hilong Holding Limited ("**Hilong**", "**we**" or the "**Company**"), I hereby present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 to our shareholders.

RESULTS

2019 was meant to be an unusual year. In a complex and changeable external environment, China and the United States made progress through repeated negotiations to address their trade conflicts, attracting market attention. The Middle East witnessed exceptional volatility during the year, which continued to affect the production and transportation safety of oil and natural gas globally. Despite that, oil prices were relatively stable in 2019, which led to a relatively stable market environment for the Group's oilfield equipment manufacturing and services segment and oilfield services segment. Driven by the recovery cycle of oil and natural gas production, the Group witnessed steady growth in its overall performance during the year. In addition to the positive level of orders in hand, it was exhilarating to find the Group made a breakthrough in terms of its products and services in certain high-end markets such as the Middle East market. Furthermore, through years of accumulation, Hilong's line pipe technology and services segment has been increasingly contributing to the Group's performance and strengthening its ability to resist oil price fluctuation. Last but not least, our offshore engineering segment has won successive bids for key projects in recent years, and has recorded a steady improvement in performance. As a result, our revenue reached approximately RMB3,649.9 million in 2019, representing a 13.3% increase from RMB3,222.4 million in 2018. Net profit was RMB188.2 million, representing an increase of 24.9% from RMB150.5 million in 2018.

YEAR UNDER REVIEW

In 2019, Hilong continued to consolidate its strategy to expand global operations. Thanks to the dedication of the entire staff of the Group, Hilong managed to extend its growth momentum from 2018, recording satisfactory results in all business segments.

For the past two years, driven by the strong growth in demand from overseas markets and domestic demand for production growth, the Group has maintained its oversaturated operation of drill pipe production. In a currently thriving market, the Group was able to balance its domestic and overseas markets on a more selective basis. For the overseas market, the Group has achieved breakthroughs in the medium-to-high-end market and high-end clients in the Middle East, resulting in the significant increase in average selling price in the overseas market. Meanwhile, with CNPC and Sinopec's increasing investments in upstream productions, domestic exploitation activities intensified, which have created great development opportunities rarely seen in recent years. In the oilfield equipment manufacturing and services segment, the Group actively seized opportunities to occupy the high-end market, and achieved healthy growth in selling price while creating a record high volume of drill pipe shipments. The oilfield equipment manufacturing and services segment recorded total revenue of RMB1,652.3 million, representing an increase of 15.7% from 2018.

Revenue from the line pipe technology and services segment increased from RMB326.4 million in 2018 to RMB360.8 million in 2019. Different from the oilfield equipment and oil service segment, which is relatively dependent on oil price, this segment benefits more from the national demand for energy security and pipeline network construction and therefore has a huge potential. The Company has also been inputting resources into this segment for years. At the end of 2019, national authorities issued documents outlining the issues concerning the establishment of the National Pipe Network Company, which is under substantial progress. Such progress is bound to bring tremendous development opportunities for this segment. In particular, the application of a series of high-end services such as pipeline inspection is expected to create a new major profit driver for the Group in the next few years.

In 2019, the oilfield services segment recorded revenue of RMB1,283.3 million, representing an increase of 13.1% from 2018, which was mainly attributable to an improvement over the last year in the average utilization rate of drilling rigs comparing with last year and the impressive performance of the new projects since 2018. Hilong entered into new services contracts on drilling rigs and workover rigs with two well-known international customers, namely Petroleum Development Oman ("**PDO**") and BP Iraq N.V. ("**BP**"), successively from late 2018 to early 2019, which demonstrated high recognition of the Group's oilfield services business amongst high-end overseas customers. The revenue growth brought by these two new contracts not only made important contribution to our performance growth for the year, but would also serve as a solid foundation for the stable revenue from our oilfield services segment in the next few years. Meanwhile, the Group completed major adjustments in resource allocation and optimization of internal management in the oilfield services segment during the year. In 2019, Hilong put great efforts in its the internal management function, and achieved notable improvement in HSSE (Health, Safety, Security, and Environmental Protection) results. These efforts ensured stable and high utilization rates of the drilling rigs, and significantly reduced costs for the Company and its customers. Meanwhile, the Group adopted the strategy of concentrating resources on selected clients. During the period, it relocated a number of rigs from existing clients to more valuable customers, such as Shell in Nigeria. As a result, eight out of 22 major drilling rigs and workover rigs owned by the Group, which were the largest and have the greatest revenue generating capacity, were allocated to international first-tier clients as Shell and BP. Such arrangement has improved the quality of the Group's receivables and ensured its ability to resist risks in volatile markets.

In 2019, our offshore engineering business continued to grow and won several biddings for some key projects, which ensured stable revenue for this segment. In the meantime, the Group also made a major decision to establish a joint venture with Swiber Offshore Construction (SOC), a famous offshore engineering company in Singapore during the year. The Group will utilize SOC's managerial experience and talents in the field of large-scale project tendering, planning and implementation to complement our advantages and jointly tap into the market opportunities of offshore engineering. During the period, Hilong recorded revenue of RMB353.5 million from its offshore engineering segment, which represented an increase of 6.2% from 2018.

PROSPECTS

Compared with the unusual 2019, the development of external environment was out of all expectations since the start of 2020, with its prospects overshadowed by the conflicts in the Middle East, the COVID-19 epidemic, the sharp fall of oil prices and the consequential volatility of financial markets. Facing various "Black Swan Events", we still remain confident in the future development of Hilong.

Our confidence mainly comes from the following aspects. Firstly, we have just survived from the "oil crises" in 2015/16, when the oil price was at a low level for a prolonged period of time and brought huge shock to the whole industry. Notwithstanding that, Hilong was still capable of maintaining dividend distributions and good liquidity. Such experience provided us with full confidence and experience to confront new challenges. Secondly, compared with 2015/16, the Group has stronger capability for risk resistance. First of all, in the oilfield equipment manufacturing and services segment, despite being the second largest supplier globally, Hilong still had certain gaps with its leading competitors and largely relied on the domestic market at that time. Due to various reasons, the domestic market shrank sharply in that year, affecting the Group to a great extent. Currently, Hilong is among the first-tier oilfield equipment suppliers around the globe, and has shifted its business model from single-market approach to multi-markets approach. Secondly, in respect of oilfield services, Hilong has undergone several years of active adjustments to concentrate the majority of its operation contracts on international first-class clients such as Shell, BP and PDO. Based on the experience from that year, such clients can guarantee better results in operation volume and trade receivables of the Group. Thirdly, after years of development, the line pipe technology and services segment has provided us with an important revenue stream from directly servicing beyond the oil and natural gas market.

Finally, even at such uncertain times, we could still clearly envision major development opportunities in front of us. First of all, our domestic operations has displayed a strong growth momentum since the second half of 2018. Such growth is mainly due to the central government's demand for China's energy self-sufficiency, leading to the development of upstream oil and natural gas production capacity. This will drive the domestic demand for oil and natural gas equipment in the years to come and this long-term policy demand will not vary upon short-term oil price fluctuations. Secondly, the specific policies relating to the National Pipe Network Company was launched before the end of 2019, which was expected to boost investments, constructions and development of oil and natural gas pipeline networks this year. To capture this market opportunity, the Group has started to invest in relevant research and development, gear up production capacity and market promotions for years. The development of this segment is also a key measure for the Group to withstand the cyclical risk of oil price fluctuations.

To conclude, we firmly believe that together with the leadership of the Board and the dedication and perseverance of the Group's management and staff, the Company would be able to capture market opportunities, cope with challenges and create maximum value for all shareholders, clients, staff and the society.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to our shareholders, management team and staff. Neither the Group's achievement nor its future development would be possible without their support and contribution. Meanwhile, I would like to thank our frontline staff who return to work quickly during the epidemic and successfully ensured our production after the Spring Festival holidays.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Jun (張軍)
(Chairman and Executive Chairman)
Mr. Wang Tao (汪濤)
(Chief Executive Officer)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Mr. Yuan Pengbin (袁鵬斌)
Dr. Yang Qingli (楊慶理)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Shi Zheyan (施哲彥)

AUTHORIZED REPRESENTATIVES

Mr. Zhang Jun (張軍)
Ms. Sham Ying Man (岑影文)

AUDIT COMMITTEE

Mr. Wong Man Chung Francis (黃文宗)
(Chairman of Audit Committee)
Mr. Wang Tao (王濤)
Ms. Zhang Shuman (張姝嫚)

REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Remuneration Committee)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Wong Man Chung Francis (黃文宗)

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Shi Zheyan (施哲彥)

COMPANY SECRETARY

Ms. Sham Ying Man (岑影文)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong

PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch
Shanghai Pudong Development Bank, Baoshan Branch

STOCK CODE

1623

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FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**1,089,198**	**29.8**	1,036,832	32.2
– Oil country tubular goods ("**OCTG**") coating services	**328,476**	**9.0**	225,501	7.0
– Drill pipe components	**42,446**	**1.2**	58,373	1.8
– Hardbanding	**20,599**	**0.6**	20,673	0.7
– Others	**171,612**	**4.7**	87,352	2.7
Subtotal	**1,652,331**	**45.3**	1,428,731	44.4
Line pipe technology and services				
– OCTG coating materials	**33,388**	**0.9**	63,994	2.0
– Oil and gas line pipe coating materials	**919**	**–**	7,948	0.2
– Oil and gas line pipe coating services	**150,914**	**4.1**	71,866	2.2
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**19,021**	**0.5**	72,836	2.3
– Concrete Weighted Coating ("**CWC**") services	**131,488**	**3.6**	90,886	2.8
– Pipeline inspection services	**25,051**	**0.7**	18,910	0.6
Subtotal	**360,781**	**9.8**	326,440	10.1
Oilfield services	**1,283,325**	**35.2**	1,134,413	35.2
Offshore engineering services	**353,469**	**9.7**	332,832	10.3
Total revenue	**3,649,906**	**100.0**	3,222,416	100.0

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

	Year ended 31 December			
	2019		2018	
	RMB'000	**%**	RMB'000	%
Russia, Central Asia and East Europe	**917,580**	**25.1**	918,137	28.5
The PRC	**900,942**	**24.8**	873,600	27.1
South Asia and Southeast Asia	**705,022**	**19.3**	615,405	19.1
North and South America	**482,752**	**13.2**	399,308	12.4
Middle East	**383,972**	**10.5**	133,218	4.1
Africa	**258,617**	**7.1**	279,867	8.7
Others	**1,021**	**–**	2,881	0.1
Total	**3,649,906**	**100.0**	3,222,416	100.0

Revenue increased by RMB427.5 million, or 13.3%, from RMB3,222.4 million in 2018 to RMB3,649.9 million in 2019. Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment and oilfield services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB223.6 million, or 15.7%, from RMB1,428.7 million in 2018 to RMB1,652.3 million in 2019. Such increase primarily reflected a significant increase in revenue derived from provision of OCTG coating services and US drill pipe rental business.

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

	Year ended 31 December	
	2019	2018
Sales of drill pipes		
– International market		
– volume (tonnes)	**37,172**	45,614
– unit price (RMB/tonne)	**20,662**	18,390
Subtotal (RMB'000)	**768,064**	838,837
– The PRC market		
– volume (tonnes)	**19,284**	12,362
– unit price (RMB/tonne)	**16,653**	16,016
Subtotal (RMB'000)	**321,134**	197,995
Total (RMB'000)	**1,089,198**	1,036,832

Revenue from sales of drill pipes in the international market decreased by RMB70.8 million, or 8.4%, from RMB838.8 million in 2018 to RMB768.0 million in 2019. The decrease primarily reflected a decrease of 18.5% in the volume of drill pipes sold from 45,614 tonnes in 2018 to 37,172 tonnes in 2019. Such decrease mainly reflected the Company's increasing emphasis on long-term cooperation and with prestigious customers in the international market on high-end products. Average selling price increased by 12.4%, which was mainly due to the increase in the sales of high-end drill pipes as a result of the Group's emphasis on long-term and prestigious customers.

Revenue from sales of drill pipes in the PRC market increased by RMB123.1 million, or 62.2%, from RMB198.0 million in 2018 to RMB321.1 million in 2019. The increase primarily reflected a 56.0% increase in the volume of drill pipes sold in the PRC market from 12,362 tonnes to 19,284 tonnes in 2019, and a 4.0% increase in average selling price in the PRC market from RMB16,016 per tonne in 2018 to RMB16,653 per tonne in 2019. The increase in the sales volume primarily reflected the increasing demands in domestic market. The increase in average selling price primarily reflected the increase of the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group in 2019 compared to that in 2018.

Revenue from OCTG coating services increased by RMB103.0 million, or 45.7%, from RMB225.5 million in 2018 to RMB328.5 million in 2019. The increase was mainly due to the increased demands of OCTG coating services in the international market.

Line pipe technology and services. Revenue from line pipe technology and services segment increased by RMB34.4 million, or 10.5%, from RMB326.4 million in 2018 to RMB360.8 million in 2019. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating services, CWC services and pipeline inspection services, partly offset by the decrease in revenue from sales of OCTG coating materials and CRA lined pipe.

The increase in revenue derived from CWC services reflected that our capacities were occupied by the Bengal project and the project with Sinopec Group's subsidiary.

The increase in revenue derived from pipeline inspection services primarily reflected the Group's ability to undertake more projects as a result of the numerous in-house development of pipeline inspection equipment and pipeline inspection data analysis systems completed by the Group.

Oilfield services. Revenue from the oilfield services segment increased by RMB148.9 million, or 13.1%, from RMB1,134.4 million in 2018 to RMB1,283.3 million in 2019. Such increase was attributable to (i) the increase in oilfield services revenue resulted from the improvement of utilization rate of drilling rigs, (ii) the increase in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients in 2019 as compared to 2018 and (iii) revenue contribution from the two drilling rigs in Oman and two workover rigs in Iraq with initial operation periods of 10 years and 5 years, respectively, which commenced operation in the fourth quarter of 2018 and the first quarter of 2019, respectively.

Offshore engineering services. Revenue from the offshore engineering service segment in 2019 mainly comprised of revenue of RMB279.0 million from the Bengal project and RMB65.9 million from the BOKOR project.

Cost of Sales/Services

Cost of sales/services increased by RMB287.0 million, or 13.0%, from RMB2,201.7 million in 2018 to RMB2,488.7 million in 2019.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB140.5 million, or 13.8%, from RMB1,020.7 million in 2018 to RMB1,161.2 million in 2019. Gross profit margin was 31.8% in 2019, which remained generally the same as that in 2018.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB30.7 million, or 24.7%, from RMB124.2 million in 2018 to RMB154.9 million in 2019. These expenses, amounting to 4.2% of the revenue in 2019, were slightly higher than the relevant expenses in 2018, which accounted for 3.9% of the revenue for the year.

Administrative Expenses

Administrative expenses increased by RMB81.0 million, or 20.0%, from RMB405.8 million in 2018 to RMB486.8 million in 2019. Such increase primarily reflected the increase in staff costs, travelling expense, office expenditure, research and development expenses and the increase in expenses incurred from the setup of three new companies.

Other Gains – Net

The Group recognised net gain of RMB104.9 million in 2019 and net gain of RMB56.9 million in 2018. The net gain recognised in 2019 reflected an exchange gain of RMB98.6 million from the operating activities as a combined result of the appreciation of the Ruble, United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**"), and government grants of RMB6.5 million relation to new and high-technology projects. The net gain recognised in 2018 reflected an exchange gain of RMB62.9 million from the operating activities as a combined result of the appreciation of USD and HKD, together with the government grants of RMB8.9 million in relation to new and high-technology projects.

Finance Costs – Net

Finance costs – net decreased by RMB34.7 million, or 11.2%, from RMB309.7 million in 2018 to RMB275.0 million in 2019. Such decrease primarily reflected (i) an exchange loss of RMB29.7 million from the financing activities resulting from the appreciation of USD and HKD, while in 2018 the exchange loss was RMB106.3 million from the financing activities resulting from the appreciation of USD and HKD; and (ii) the interest expense from bank borrowings increased from RMB217.5 million in 2018 to RMB246.1 million in 2019.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB232.5 million in 2018 to RMB312.4 million in 2019.

Income Tax Expense

The Group recognised income tax expense of RMB82.0 million in 2018 and RMB124.2 million in 2019, respectively. Effective tax rate was approximately 35.3% in 2018 and 39.8% in 2019, which resulted from the increase of tax losses of subsidiaries not recognised.

Profit for the year attributable to equity owners of the Company

As a result of the foregoing, profit for the year attributable to equity owners of the Company increased from RMB148.7 million in 2018 to RMB176.8 million in 2019.

Inventories

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

	As at/for the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Inventory	**860,109**	889,138
Turnover days of inventory (in days)[1]	**128**	144

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2018 and 2019. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The decrease in inventories from 31 December 2018 to 31 December 2019 is mainly due to the increasing sales of drill pipes and the increasing needs of the provision of OCTG coating services.

Trade and Other Receivables

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables		
– Due from third parties	**2,185,505**	1,958,858
– Due from related parties	**6,140**	4,039
– Less: Provision for impairment of receivables	**(105,269)**	(154,978)
Trade receivables – net	**2,086,376**	1,807,919
Other receivables		
– Due from third parties	**103,439**	92,163
– Due from related parties	**148,537**	133,866
Other receivables	**251,976**	226,029
Bills receivable	**–**	48,913
Dividend receivables	**2,746**	2,036
Total	**2,341,098**	2,084,897

The trade receivables of RMB12,813,000 (31 December 2018: Nil) of the Group were used to secure borrowings from financial institution as at 31 December 2019.

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

	As at/for the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables, net		
– Within 90 days	**907,375**	1,000,596
– Over 90 days and within 180 days	**388,624**	212,306
– Over 180 days and within 360 days	**341,155**	371,425
– Over 360 days and within 720 days	**352,456**	135,565
– Over 720 days	**96,766**	88,027
	2,086,376	1,807,919
Turnover days of trade receivables, net[1]	**195**	208

[1] Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2018 and 2019. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the year plus balance at the end of the year, divided by two.

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

	Year ended 31 December	
	2019	2018
As at 1 January	**154,978**	143,457
Provision for receivables loss allowance	**41,730**	12,418
Reversal of loss allowance	**–**	(897)
Write-off of loss allowance	**(91,439)**	–
As at 31 December	**105,269**	154,978

The decrease in turnover days of trade receivables from 208 days for the year ended 31 December 2018 to 195 days for the year ended 31 December 2019 primarily reflected the accelerated settlement for trade receivables due from certain oil and gas companies in the international market in 2019.

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 payable, accrued taxes other than income tax and dividends payable. The following table sets forth the components of trade and other payables outstanding as at the dates indicated:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Bills payable	**233,171**	206,909
Trade payables		
– Due to related parties	**15,183**	15,984
– Due to third parties	**643,219**	658,109
Other payables		
– Due to related parties	**59,719**	19,031
– Due to third parties	**95,575**	34,213
Staff salaries and welfare payables	**42,314**	44,168
Interest payables	**33,364**	7,026
Accrued taxes other than income tax	**99,281**	94,158
Dividends payable	**11,809**	4,109
Other liabilities	**17,804**	15,482
	1,251,439	1,099,189

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

	As at/for the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables, gross		
– Within 90 days	**470,851**	458,889
– Over 90 days and within 180 days	**148,170**	170,886
– Over 180 days and within 360 days	**29,941**	28,656
– Over 360 days and within 720 days	**7,270**	12,812
– Over 720 days	**2,170**	2,850
	658,402	674,093
Turnover days of trade payables[1]	**98**	112

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2018 and 2019. Average trade payables equals to balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

Liquidity and Financial Resources

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	**416,166**	469,136
Net cash used in investing activities	**(214,871)**	(496,446)
Net cash (used in)/generated from financing activities	**(84,265)**	296,587
Net increase in cash and cash equivalents	**117,030**	269,277
Exchange gains on cash and cash equivalents	**4,410**	3,447
Cash and cash equivalents at beginning of the year	**661,738**	389,014
Cash and cash equivalents at end of the year	**783,178**	661,738

As at 31 December 2019, cash and cash equivalents are mainly denominated in RMB, USD, RUB, AED, PKR and CAD.

Operating Activities

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

Net cash generated from operating activities in 2018 was RMB469.1 million, representing cash generated from operation of RMB585.4 million, offset by the income tax payment of RMB116.3 million.

Investing Activities

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

Net cash used in investing activities in 2018 was RMB496.4 million, primarily reflecting (i) the payment of RMB489.5 million for purchases of property, plant and equipment, (ii) the payment of RMB33.0 million for purchases of intangible assets, partially offset by the proceeds of RMB11.8 million from disposal of property, plant and equipment.

Financing Activities

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

Net cash generated from financing activities in 2018 was RMB296.6 million, primarily reflecting the repayment of borrowings of RMB527.6 million and the interest payment of RMB205.0 million, partially offset by the proceeds of RMB1,027.0 million from borrowings.

Capital Expenditures

Capital expenditures were RMB588.9 million and RMB248.3 million in 2018 and 2019 respectively. The decrease in capital expenditures in 2019 was mainly due to the decrease in development expenditures in overseas oilfield services segment business.

Indebtedness

As at 31 December 2019, the outstanding indebtedness of RMB3,243.4 million was mainly denominated in USD, EUR and RMB. The following table sets forth the breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current		
Senior Notes – unsecured	**1,356,369**	2,106,656
Bank borrowings – unsecured	**294**	16,780
Bank borrowings – secured	**211,517**	480,527
Less: Current portion of non-current borrowings – secured	**(36,934)**	(109,290)
	1,531,246	2,494,673
Current		
Senior Notes – unsecured	**1,149,216**	–
Bank borrowings – secured	**107,300**	97,185
Bank borrowings – unsecured	**418,661**	369,467
Current portion of non-current borrowings – secured	**36,934**	109,290
	1,712,111	575,942

As at 31 December 2019, bank borrowings of RMB2,875.3 million were obtained at fixed rate (31 December 2018: RMB2,706.9 million).

The bank borrowings of RMB67.8 million (31 December 2018: RMB217.2 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB13.1 million as at 31 December 2019 (31 December 2018: RMB49.6 million).

The borrowings of RMB15,240,000 from financial institution (31 December 2018: Nil) were secured by trade receivables of RMB12,813,000 of the Group as at 31 December 2019.

The bank borrowings of RMB24,238,000 (31 December 2018: Nil) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 31 December 2019.

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounted to RMB400.0 million. These loan principals were secured by the Controlling Shareholder and his spouse. As at 31 December 2019, RMB385,000,000 were drawn down, out of which RMB77,000,000 had been repaid during 2017 and 2018, the remaining principals had been fully repaid during 2019.

In April 2018, Hilong Oil Service Co., Ltd., a subsidiary of the Company, entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 31 December 2019, USD33,545,000 were drawn down, out of which USD2,520,000 had been repaid during 2019, the remaining principals will be fully repayable from 2020 to 2025.

On 18 January 2018, the Company issued USD60,000,000 7.25% senior notes due 2020 (the "**Additional Notes**") to be consolidated and form a single series with the USD250,000,000 7.25% senior notes due 2020 previously issued by the Company on 22 June 2017 ("**Original Notes**").

In September 2019, the Company purchased its outstanding Original Notes and Additional Notes in an aggregate principal amount of USD144,886,000 (hereinafter collectively referred to as the "**2020 Notes**") by way of cash tender offer ("**Tender Offer**").

Concurrent with the Tender Offer, the Company issued senior notes in a principal amount of USD200,000,000 (the "**2022 Notes**"). The 2022 Notes, guaranteed by certain subsidiaries of the Group, will bear interest from 26 September 2019 at 8.25% per annum payable semi-annually in arrears on 26 March and 26 September of each year, beginning from 26 March 2020. The net proceeds from the 2022 Notes will be used to refinance the Group's existing offshore indebtedness, including the 2020 Notes by way of Tender Offer, and for working capital and general corporate purposes. The 2022 Notes were listed on the Stock Exchange of Hong Kong Limited on 27 September 2019. As at 31 December 2019, the net proceeds from the 2022 Notes had been fully utilized for the purpose as mentioned above.

Gearing Ratio

The Group's objectives in capital management objectives are to maintain the Group's ability of ongoing operation 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 industry peers, the Group monitors its capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated by 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 31 December 2019 and 31 December 2018 are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total borrowings	**3,243,357**	3,070,615
Add: Lease liabilities	**40,397**	–
Less: Cash and cash equivalents	**(783,178)**	(661,738)
Restricted cash	**(124,329)**	(184,479)
Net debt	**2,376,247**	2,224,398
Total equity	**3,706,463**	3,522,010
Total capital	**6,082,710**	5,746,408
Gearing ratio	**39.07%**	38.71%

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 USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including USD, has been made based on the 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 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 14.0% appreciation of RMB against USD from 21 July 2005 to 31 December 2019. 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 actively matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 47.8% and 47.7% of the total revenue of the Group in 2018 and 2019, respectively.

Staff and Remuneration Policy

As at 31 December 2019, the total number of full-time employees employed by the Group was 3,188 (31 December 2018: 3,405). The following table sets forth the number of the Group's full-time employees by their roles of responsibilities as at 31 December 2019:

On-site workers	2,061
Administrative	501
Engineering and technical support	408
Sales, marketing and after-sales services	90
Research and development	94
Company management	34
	3,188

Employee costs excluding the Directors' remuneration totalled RMB684.9 million.

Employees are encouraged to take training courses or seminars from time to time to enhance their knowledge and skills. The Group offers employees remuneration packages mainly based on individual performance and experience and industrial practice will also be considered when making such decisions. The remuneration packages include basic wages, performance related bonuses and 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 statutory ceilings, and are paid to the labour and social welfare authorities.

The Company also ratified and adopted a Pre-IPO share option scheme on 28 February 2011. The Pre-IPO share option scheme commenced on 1 January 2011. During 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO share option scheme, have been granted.

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

BUSINESS REVIEW

During the year of 2019, the Group was faced with a complex and changeable external environment. However, despite numerous changes, we could still observe the trend that the situations in many aspects are still moving towards a relatively stable direction. The Sino-US trade conflicts continued to affect market sentiment during the process of repeated negotiations. The complex relationships in the Middle East region, especially the deteriorating security situation in Iran and its surrounding areas, are threatening the global supply and transportation of oil and natural gas. However, approaching the end of 2019, China and the United States had finally reached consensus on its first phase of trade agreement. The signing of the trade agreement eased the trade tensions and conflicts between both sides, avoiding the situation from turning worse. In addition, although we are concerned about the political and security environment of the two major oil producing regions, the Middle East and South America, the global crude oil prices had been trading within a relatively narrow range during 2019. Such narrow oil price spread was rarely seen in the past, creating a very stable and beneficial market environment for oilfield equipment and oilfield service enterprises. Driven by the stable market demand and the proactive efforts of the management, the Group achieved satisfactory results in 2019. During the period, the revenue increased from RMB3,222.4 million last year to RMB3,649.9 million this year, representing a growth rate of 13.3%. Net profit increased by 24.9%, from RMB150.5 million last year to RMB188.2 million this year.

The four principal business segments recorded encouraging growth, particularly the two core business segments: the oilfield equipment segment and oilfield services segment. The revenue of these two segments was RMB1,652.3 million and RMB1,283.3 million, respectively, representing an increase of 15.7% and 13.1% respectively, as compared with RMB1,428.7 million and RMB1,134.4 million for the corresponding period of last year. In addition, the line pipe technology and services segment and the offshore engineering segment have also achieved satisfactory results, and the revenue of these two segments reached RMB360.8 million and RMB353.5 million, representing an increase of 10.5% and 6.2% respectively, as compared with RMB326.4 million and RMB332.8 million last year. Set out below is the review of the development of each business segment in 2019:

OILFIELD EQUIPMENT

Rapid growth in the domestic market and strong rebound of demands for high-end products

The oilfield equipment segment has been growing rapidly since 2017. During the period, its revenue increased by 15.7% from RMB1,428.7 million last year to RMB1,652.3 million this year. This year, the market presented the following trends: first, the continued outbreak of demand in the domestic market has led to a significant growth of 62.2% in the domestic sales of drill pipes; and second, the high-end sector of OCTG coating business recorded significant growth.

Since the second half of 2018, the PRC government constantly emphasized the importance of self-sufficiency in respect of domestic energy production. As a result, many domestic oil and natural gas enterprises have substantially increased their capital expenditures. In 2019, following the robust growth in the second half of 2018, domestic sales of drill pipes significantly increased by 56.0% from 12,362 tonnes last year to 19,284 tonnes. Accordingly, the domestic sales of drill pipes reached RMB321.1 million, representing an increase of 62.2% as compared to RMB198.0 million last year. During the period, the principal domestic demand was mainly attributable to the production and exploration activities in the complex geological environments, such as the south-western region, Changqing and Traim, which drove demands for high-end Non-American Petroleum Institute (API) products. Therefore the domestic price of drill pipes increased by 4.0% from RMB16,016 to RMB16,653. All accounts also indicates that the exploitation activities of oil and natural gas in these complex geological conditions will last for a relatively long time or even further expand in the future. Our advantages in the field of high-end drill pipes will also help us further consolidate relevant market share.

In respect of overseas markets, the Group had also achieved gratifying results, especially in overseas high-end market, in which Hilong had secured high-end order contracts in several important market segments. Driven by the needs from high-end market and high-end products, the average selling price increased by 12.4% from RMB18,390 per tonne last year to RMB20,662 per tonne this year in the overseas market. The aforesaid high-end market included the directional well project of Abu Dhabi National Oil Company in the Middle East with high-grade hydrogen-sulfide-resistance technology. Such project had not only made significant contribution to the results of the Company, but also demonstrated the competitiveness of Hilong's high-end products in the high-end market. In addition, among various overseas markets, the core markets of the Group, the markets of Russia and the United States, maintained strong growth. In Russian market, with our efforts put in over the past two years, the Group's drilling products had been highly recognized by major customers. On this basis, in 2019, the Group continued to strengthen its development in Russian market, further consolidating its position as the largest drill pipe provider in the local market. Along with the success of our drilling products in Russia, Hilong also continued to increase the efforts in developing other high-end products such as OCTG coating services and has achieved considerable results.

In 2019, the Group also made great achievements in developing new customers and new markets overseas. On 8 May 2019, Hilong entered into a three-year master supply agreement with a total consideration of USD30 million with Ensign Energy Services Inc., a renowned Canadian drilling services company. This agreement is the largest long-term supply agreement entered into between the Group and a global leading oil services company since 2015/16.

LINE PIPE TECHNOLOGY AND SERVICES

Excellent performance of high-end products and services, recording stable business growth

The revenue of the line pipe technology and services segment increased by 10.5% from RMB326.4 million last year to RMB360.8 million. During the period, several major contracts were obtained in relation to subsea CWC business, which recorded revenue growth of 44.7% from RMB90.9 million last year to RMB131.5 million this year. Meanwhile, the workload of long distance pipeline coating business increased significantly and the results of such business rebounded strongly, with its revenue increased by 110.0% from RMB71.9 million last year to RMB150.9 million during the period. The prioritized business of the Group, the long distance pipeline inspection business, also achieved notable growth during the period and recorded revenue of RMB25.1 million, increased by 32.5% from RMB18.9 million. As the National Pipe Network Company was established at the end of 2019, it is believed that the line pipe technology and services segment, particularly high-end business such as pipeline inspection will gain tremendous development opportunities, and have the potential to be the major profit driver of the relevant segments and the Group as a whole.

OILFIELD SERVICES

Deploying resources to strengthen relationship with core customers and consolidate core market

During the period, revenue derived from oilfield services segment amounted to RMB1,283.3 million, representing an increase of 13.1%. The increase in revenue during the period was mainly resulted from new drilling services businesses. In FY2018, the Group had entered into new services agreements with two global-leading oil and gas exploration and production companies, Petroleum Development Oman ("**PDO**") and BP Iraq N.V. ("**BP**"), respectively. Accordingly, the Group began to provide two 2,000HP automated drilling rigs and two high-end workover rigs to these two customers in two new markets, Oman and Iraq, in October 2018 and March 2019, respectively. The contract entered into with PDO in relation to the automated drilling rigs services had a term of 10+5 years and an annual minimum contract value of no less than USD10 million per rig. The contract entered into with BP in relation to the workover rigs services had a term of 5+1 years and an annual minimum contract value of no less than USD8.5 million per rig. The successful commencement of these two new contracts not only provided an essential impetus for the growth of the Group's results during the period, but also laid a strong foundation for the Group's profit generation in the next few years.

Moreover, the integrated services of the oilfield services segment continued to contribute considerable revenue in 2019. On the basis of the past development, the integrated services of Hilong have been recognized by many customers in the current market. In 2019, revenue derived from the Group's integrated services of the oilfield services amounted to RMB109.1 million in the first half of 2019, which remained stable in general.

While focusing on its business development, the Group also paid attention to capital investment and cost control, and has gained significant results. During the period, the results of HSSE (Health, Safety, Security, and Environmental Protection) of each drilling team of the Group had reached the highest level since establishment, ensuring stable operations of drilling rigs and maintaining the general drilling utilization rate at its record high level. Meanwhile, the relocation and installation time of each drilling team, had improved significantly, which resulted in significant cost savings, representing a decrease of 9.2% as compared with last year. Moreover, the two high-end automated drilling rigs provided by Hilong for PDO also performed remarkably: HL58 drilling rigs was often ranked number one in respect of its Composite KPI scores among the ten drilling teams operating in the same area, and was highly-recognized by our customer; and HL59 completed a 3500-meter drilling operation in the Mabrouk block 10.32 days earlier than originally planned, which not only set the fastest record for similar drilling operations, but also created additional contributions for the customer and Hilong.

Year 2019 witnessed a series of important trends in the development of the Group's oilfield services segment. First of all, the demand for services from our key high-end customers went ahead with an increase. During the month from April to May 2019, the Group entered into a long-term drilling service contract with Shell, an international well-known enterprise, for the provision of two 2,000HP heavy-duty onshore drilling rigs, namely Hilong No. 19 and Hilong No. 29, in Nigeria. Thanks to the good operational records with Shell from 2014 to 2017, Hilong No. 29 drilling rig was relocated to the new operation area from its operations area in Ethiopia, while Hilong No. 19 drilling rig was requested to return to Shell's operations area from the project of existing customer, which resulted in an increase in its daily rate. The above series of proactive adjustments helped Hilong improve the quality of customers, enhance its risk resistance capabilities, and reduce the risk of bad debts.

OFFSHORE ENGINEERING SERVICES

Successfully completing a number of contracts and introduction of strong cooperation in the future

During the period, Hilong's offshore engineering services segment completed several projects successfully, and recorded a revenue of RMB353.5 million, representing an increase of 6.2% as compared with RMB332.8 million for last year. In the field of offshore engineering, the Group had made material strategic adjustments during the period. On 25 July 2019, the Group announced the establishment of a joint venture with Swiber Offshore Construction (SOC), a well-known offshore engineering company in Singapore, for the purpose of joint participation in the bidding for offshore engineering services. Both parties are committed to integrating their respective favorable advantages and resources through such cooperation to achieve resource complementation, jointly capturing market opportunities on the basis of involving neither assets nor material investments. This cooperation represents one of the key measures adopted by the Group to increase assets return and optimize resources allocation.

Technology research and development

The Group always attaches great importance to the research and development and investments in the high technology field. For years we have been making every endeavor to develop frontier technologies in line with the needs of future market. In 2019, we witnessed a number of technological achievements gaining market recognition and becoming important profit-contributors. For example, after years of painstaking research and study, we have made breakthroughs in the hardware and software for the pipeline inspection technology in the second half of 2018. Prior to that, technologies in this field had been monopolized by two overseas companies, which not only limited the development of the pipeline inspection business in the PRC, but also posed a threat to our national energy security. The success of Hilong in this area not only broke the monopoly status by relevant companies, but also created a critical future source of income for the Group.

In addition, other material technological breakthroughs, including the combination of high-strength drill pipe joints with the high-grade hydrogen-sulfide-resistant technology, have helped the Group secure a major order of drill pipes in the Middle East market successfully. Going forward, the Group will continue to invest in the research and development of high technology, looking forward to making breakthroughs in more fields.

OUTLOOK

At the beginning of 2020, we have witnessed significant increase in market volatility. In the first quarter, the hostile relationship between the United States and Iran suddenly deteriorated sharply, almost resulting in a new wave of conflict in the Middle East. The outbreak of COVID-19 in China had an impact on the resumption of production and work for various industries in the PRC. Since March 2020, due to the collapse in the negotiation between OPEC and Russia over further production cuts, the once stable oil prices have plunged drastically in a short period, causing a widespread panic. These "black swan" incidents have brought great uncertainties to the future of the gradually-recovering oil and gas industry. However, the Group's diversified business distribution, sound development strategies and excellent market reputation have always been the solid foundation for us to face all market challenges.

In the short term, it is expected that the Group's business segments would not be materially affected. First of all, in the oilfield services segment, the Group's businesses are mainly contributed by long-term drilling services contracts with contract terms of typically three to five years or even up to ten years, which have higher level of resistance against short-term fluctuations. Moreover, these daily-rate contracts usually have protective terms, pursuant to which the Company is able to receive "suspension fee" during the period in which customers have stopped drilling, which can further safeguard the Company's interests. In the oilfield equipment segment, since 2017, the Company has been in overloaded production mode. Currently, we have adequate orders in hand, generally meeting the production plan for 2020. Additionally, given the high industrial barriers in the OCTG coating services, it is expected that the Group would be able to maintain profitability during the market fluctuations with the Company's technical advantages. Lastly, the Group's key development focus in recent years, the line pipe technology and services segment, is remotely associated with the oil prices. Coupled with the establishment of the National Petroleum and Natural Gas Pipe Network Group Co., Ltd. last year, the Group is confident that this segment will make more contribution in 2020.

Facing with the future uncertainties, the Group can take lessons from the depression of international oil market in 2015/16. During the year of 2015/16, despite of numerous difficulties facing by the Group, the Group managed to generate considerable profit. However, with the development over the past few years, the Group is now having stronger resistance against the market fluctuation in various aspects compared to 2015/16. Firstly, in the oilfield service field, following proactive adjustments by the Group in the past few years, the Group had been focusing on first-tier international customers including Shell, BP and PDO, who have contributed a significant portion to the revenue of oilfield service business. Based on our previous experience, during hard times, the operational volume from such type of customers are more stable than those of other small-sized oil and gas companies, and their financial capabilities are also stronger. Moreover, daily-rate contracts are the Group's primary modes of cooperation, which provide higher protections to the Company. In addition, in oilfield equipment field, the Group has relatively small global market share as opposed to larger weight in the domestic market, despite its being the second largest drill pipes provider in the world in 2015/16. In 2015/16, as a result of various reasons, the operation volume and product price in the domestic market reduced harshly and the oil price was fluctuating, bringing a double-loss to the Group. At present, the Group's global market share has increased significantly. Apart from the domestic market, we have also made a number of breakthroughs in overseas market. Together with the great opportunities brought by the current production growth in the PRC, we believe that the impact from the fluctuation of oil price on the equipment segment will be much less than it was before. At last, the National Petroleum and Natural Gas Pipe Network Group Co., Ltd. was established at the end of 2019 and brought a great opportunity for the development of Hilong's line pipe technology and services segment. This segment falls within the national infrastructure construction category and has very low correlation with the fluctuation of oil price, becoming an important tool for us to address oil price volatility.

In view of the market volatility that may occur, with the development and accumulations in the past few years, the Group believes that it has stronger risk resistance capability in terms of business distribution and strategic layout. We are confident in our business development in 2020.

BOARD OF DIRECTORS

The Board consists of eight Directors, including two Executive Directors, three Non-executive Directors, and three Independent Non-executive Directors. The table below sets forth the information regarding the Board:

Name	Age	Management Position
ZHANG Jun (張軍)	52	Chairman, Executive Director and Executive Chairman
WANG Tao (汪濤)	56	Executive Director and Chief Executive Officer
ZHANG Shuman (張姝嫚)	46	Non-executive Director
YUAN Pengbin (袁鵬斌)	61	Non-executive Director
YANG Qingli (楊慶理)	63	Non-executive Director
WANG Tao (王濤)	73	Independent Non-executive Director
WONG Man Chung Francis (黃文宗)	55	Independent Non-executive Director
SHI Zheyan (施哲彥)	63	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張 軍), aged 52, is an Executive Director, the chairman of the Board and executive chairman of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. Mr. Zhang served as the chief executive officer of the Company from 2 December 2010 to 15 December 2017, responsible for the overall business operations and strategy formulation of the Company. He was re-designated to executive chairman of the Company on 15 December 2017, responsible for the overall strategic planning of the Group, new market development, and capital market related and investor relations management. Mr. Zhang serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited and the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited. He also serves as the director/senior management of other subsidiaries of the Group. Mr. Zhang has over 29 years of experience in the petroleum industry. From 2001 to 2007, he was engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. During his service as vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was a "Top 10 Influential Leader in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009 (2009 中國石油石化裝備製造業十大最具影響力領軍人物)", a title conferred by the National Energy Commission (國家能源委員會). Mr. Zhang is the elder brother of Ms. ZHANG Shuman, Non-executive Director of the Company. He is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

Mr. WANG Tao (汪濤), aged 56, is an Executive Director, chief executive officer and a member of the Nomination Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010 and was re-designated to an Executive Director on 29 March 2012. Mr. Wang served as the executive president of the Company from February 2012 to December 2017, and was re-designated to chief executive officer of the Company on 15 December 2017. He has also served as the director of Hilong Oil Service and Engineering Nigeria Limited since 2010. He also serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited, the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited, and the legal representative of Hilong Group of Companies Ltd.. Mr. Wang also serves as the director/senior management of other subsidiaries of the Group. Mr. Wang has over 31 years of management experience in the petroleum industry, and served as the vice general manager of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2006 to February 2012 and the director of Hilong Drilling & Supply FZE from December 2009 to May 2016. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991, responsible for on-site operation and business administration. From 1991 to 2001, Mr. Wang served as the assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as the vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 46, is a Non-executive Director and a member of the Audit Committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. She was re-designated to a Non-executive Director of the Company on 29 March 2012. Ms. Zhang served as the chief strategy officer of the Company from 2 December 2010 to 24 March 2017, primarily responsible for the financial affairs and strategic investment activities of the Group. She also served as the joint company secretary of the Company from 10 February 2011 to 24 March 2017. Ms. Zhang has over 23 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003. She has been a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. From 2003 to 2006, Ms. Zhang acted as the joint secretary to the board of directors and coordinator of a Chinese joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's Degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the younger sister of Mr. ZHANG Jun, Executive Director and chairman of the Board, executive chairman and substantial and controlling shareholder of the Company.

Mr. YUAN Pengbin (袁鵬斌), aged 61, is a Non-executive Director and a member of the Remuneration Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010. He has served as the chairman of the board of Hilong Pipeline Engineering Technology Co., Ltd. (海隆管道工程技術有限公司) (formerly known as Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司)) since 2005. He has over 36 years of research and development experience in the petroleum industry. Since joining the Group in 2005, he served as the president and general manager of Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd. (上海海隆防腐技術工程有限公司) (currently known as Hilong Pipeline Engineering Technology Co., Ltd. (海隆管道工程技術有限公司)). He also served as an executive director and the deputy general manager of Hilong Group of Companies Ltd. from 2005 to 2011, the institute head of Shanghai Hilong Tubular Goods Research Institute (上海海隆石油管材研究所) from 2006 to 2016, a director of Tangrong Tube-Cote Petroleum Pipe Coating (Shanxi) Co., Ltd. (湯榮圖博可特(山西)石油管道塗層有限公司) from 2008 to 2012, the chief engineer of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2011 to 2017 and a secretary of the CPC party committee of Hilong Group of Companies Ltd. from July 2013 to 2018. Although Mr. Yuan holds managerial positions in our subsidiaries, his role at the Company level is limited to non-executive functions. Prior to joining the Group, he worked for CNPC Tubular Goods Research Institute (中國石油天然氣集團公司石油管材研究所) from 1983 to 2005 and acted as an assistant to institute head from 2003 to 2005. During the same period, he also served as the general manager of Xi'an Sanhuan Science and Technology Development Company Limited (西安三環科技開發總公司). Mr. Yuan received a Bachelor's Degree in Engineering from Xi'an University of Technology (西安理工大學) in 1983. In 2008, he received a Doctoral Degree in Engineering from Southwest Petroleum University (西南石油大學). He is a certified senior engineer (professor level) in heat treatment. Mr. Yuan is the vice president of the Association for Science and Technology of Bao Shan District, Shanghai, the deputy to the National People's Congress of Shanghai and the director of the Petroleum Pipeline Engineering Center of Shanghai (上海市石油管工程中心). He was appointed as the chairman of Shanghai Yiyou New Energy Technology Co., Ltd (上海亦又新能源科技有限公司) with effect from June 2019 and the head of Shanghai Yiyou Energy Equipment Technology Research Institute (上海亦有能源裝備技術研究所) with effect from January 2020. He was a member of the Association for Science and Technology of Shanghai from October 2010 to October 2019. Mr. Yuan was elected as the technological talent and the leadership talent of the sixth session and the seventh session of Bao Shan District, Shanghai in 2010 and 2013, respectively, and was elected as the leadership talent of Shanghai in 2011. He was also a member of the National Testing Machine Standards and Technology Committee (全國試驗機標準化技術委員會) and the Failure Analysis Committee of Chinese Mechanical Engineering Society (中國機械工程學會失效分析委員會). He was entitled to the special subsidy from the State Council of the People's Republic of China since 2012.

Dr. YANG Qingli (楊慶理), aged 63, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 21 August 2015. Dr. Yang is a senior engineer of professor level. He has over 37 years of experience in operation technologies, practices and management of petroleum engineering. Dr. Yang started his career in 1982 when he joined Changqing Oilfield as a technician of the drilling team. In 1984, he became the deputy manager of No. 2 Drilling Company of Changqing Petroleum Exploration Bureau (長慶石油勘探局第二鑽井公司) and was mainly in charge of technology, production and operation. In 1998, he served as the assistant to the director of Changqing Petroleum Exploration Bureau (the "**Bureau**") where he assisted in managing the Bureau's business operation. From 2000 to 2005, Dr. Yang served as the deputy director and Party Committee Secretary of the Bureau, and was in charge of production, safety management, human resources and stability management. During 2005 to 2008, he served as the director of marketing management department and the director of engineering technology and marketing department of China National Petroleum Corporation ("**CNPC**"), respectively. From 2008 to February 2015, Dr. Yang was the general manager of CNPC Technical Service Company (中國石油天然氣集團公司工程技術分公司) where he was directly in charge of the technology research and development as well as operation and business management of geophysical exploration, drilling, testing, logging, borehole operation and fracturing operated by CNPC. Dr. Yang graduated from East China Petroleum Institute (華東石油學院) (currently known as China University of Petroleum) with a Bachelor's Degree in Drilling in 1982, and obtained a Doctoral Degree in Oil-and-gas Well Engineering from China University of Petroleum in 2008.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 73, is an Independent Non-executive Director, the chairman of the Remuneration Committee, the chairman of the Nomination Committee and a member of the Audit Committee of the Company. He was appointed as an Independent Non-executive Director on 2 December 2010. Mr. Wang has over 49 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械工業部5214廠) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and the general manager, chairman and senior engineer of professor level of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院) (currently known as Xidian University (西安電子科技大學)) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

Mr. WONG Man Chung Francis (黃文宗), aged 55, is an Independent Non-executive Director and the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He was appointed as an Independent Non-executive Director on 24 March 2017. He is currently an independent non-executive director of a number of companies listed on The Stock Exchange of Hong Kong Limited including China Oriental Group Company Limited (stock code: 581), Wai Kee Holdings Limited (stock code: 610), Integrated Waste Solutions Group Holdings Limited (stock code: 923), Greenheart Group Limited (stock code: 94), Digital China Holdings Limited (stock code: 861), GCL-Poly Energy Holdings Limited (stock code: 3800) and Qeeka Home (Cayman) Inc. (stock code: 1739). He has been appointed as an independent non-executive director of IntelliCentrics Global Holdings Ltd. (stock code: 6819), a company listed on The Stock Exchange of Hong Kong Limited, with effect from 23 January 2020 and an independent non-executive director of Shanghai Dongzheng Automotive Finance Co., Ltd. (stock code: 2718), a company listed on The Stock Exchange of Hong Kong Limited, with effect from 24 February 2020. He served as an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd. (stock code: 3768), a company listed on The Stock Exchange of Hong Kong Limited, from June 2016 to August 2018 and an independent non-executive director of China New Higher Education Group Limited (stock code: 2001), a company listed on The Stock Exchange of Hong Kong Limited, from March 2017 to December 2019. He holds a Master's Degree in Management from Guangzhou Jinan University (廣州暨南大學) in the People's Republic of China. Mr. Wong is a fellow member of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants, a Certified Tax Advisor of the Taxation Institute of Hong Kong and a fellow member of the Society of Chinese Accountants and Auditors. He is a senior Certified Public Accountant (Practising) and has over 31 years of experience in auditing, taxation, internal control and governance, acquisition and financial consultancy, restructuring and liquidation, family trust and wealth management matters. Mr. Wong worked at KPMG, an international accounting firm, for over six years and Hong Kong Securities Clearing Company Limited for one year and ten months.

Mr. SHI Zheyan (施哲彥), aged 63, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive Director of the Company on 25 August 2017 and was appointed as a member of the Nomination Committee of the Company on 21 June 2019. Mr. Shi has nearly 45 years of work experience in the petroleum industry. From April 2014 to July 2016, he was the deputy chief economist and the head of the security department of China National Petroleum Corporation ("**CNPC**"). He served as the head of the security department in April 2007. From December 2000 to April 2007, he was the deputy director of the general office of CNPC. From July 1995 to December 2000, he served as the deputy general manager of China Petroleum Engineering & Construction Corporation. From March 1992 to July 1995, he was the secretary (director level) at the general office secretariat of CNPC. From October 1985 to March 1992, he worked at the CNPC Managers Training Institute of the Ministry of Petroleum Industry (石油工業部北京石油管理幹部學院), first as the deputy director of the general office of CPC Party Committee, and later as the director of the institute head's office and the head of the human resources department. From October 1979 to October 1985, he served as the officer and deputy head of the Department of Transport under East China Oil Transport Administration Bureau (華東輸油管理局運輸處). Starting his work at Liaohe Oil Field (遼河油田) in January 1975, he served as the confidential secretary of the CPC Party Committee's general office for the transportation division of Liaohe Oil Field from May 1978 to October 1979. Mr. Shi is a senior engineer. He holds a Bachelor's Degree in Business Administration from Southwest Petroleum University (西南石油學院).

SENIOR MANAGEMENT

For the biographies of Mr. ZHANG Jun and Mr. WANG Tao (汪濤), please refer to "– Board of Directors – Executive Directors". For the biography of Ms. ZHANG Shuman, please refer to "– Board of Directors – Non-executive Directors". Other members of the senior management team of the Company consist of the following:

Mr. DAI Daliang (代大良), aged 53, has been a director of Hilong Oil Service and Engineering Nigeria Limited since 2010, a director and the general manager of Hilong Oil Service and Engineering Co., Ltd. since 2008, and the executive president of the Company since December 2017. Mr. Dai has over 30 years of experience in the petroleum industry. Prior to joining the Group, from 1989 to 1995, Mr. Dai worked as an engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司), responsible for the drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司), responsible for international drilling cooperation. From 1996 to 2001, he worked for Greatwall Drilling Company Limited (中油長城鑽井有限公司) as its co-manager of the marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by Greatwall Drilling Company Limited. From 2001 to 2008, he served as the deputy general manager of Greatwall Drilling Company Limited. In 2008, he worked as an assistant to the general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's Degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's Degree in Engineering from Central South University of Technology in 1990 and a Doctorate Degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. CHEN Yong (陳勇), aged 46, is the chief financial officer of the Company. After joining the Group in August 2008, Mr. Chen served in various positions in Hilong Group of Companies Ltd., including finance controller, audit supervisor, assistant to the president and internal control director. He was appointed as the chief financial officer of the Company in 2016. As the chief financial officer, Mr. Chen is responsible for overall financial and corporate finance management. Mr. Chen received a Master's Degree in Economics from Shanghai University of Finance and Economics (上海財經大學). He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom (FCCA), and has obtained the Legal Professional Qualification Certificate (法律職業資格證書) of the PRC.

Mr. XU Changxue (徐昌學), aged 55, has served as the chief engineer of Hilong Group of Companies Ltd. since April 2017, while acting as the head of Hilong Tubular Goods Research Institute. Mr. Xu is also the president of Shanghai Baoshan Federation of Science and Technology Enterprises (上海市寶山區科技企業聯合會). He has over three decades of experience in the petroleum industry. Prior to joining the Group, Mr. Xu worked for China Research Institute for Petroleum and Natural Gas Pipelines (中國石油天然氣管道科學研究院), as project director and branch director from 1987 to 1999. Subsequently, he served as a member of the senior management at various agencies before returning to China Research Institute for Petroleum and Natural Gas Pipelines as its head in 2010. Mr. Xu graduated from Southwest Petroleum University (西南石油學院) in 1987, majoring in applied chemistry. He obtained his Doctoral Degree from the same university in 2002, majoring in petroleum and natural gas engineering.

Mr. WANG Xianglei (王相磊), aged 50, joined the Group in August 2008. He is the vice president of Hilong Group of Companies Ltd. and the general manager of Hilong Oil Service and Engineering Co., Ltd. Mr. Wang has over 29 years of experience in the petroleum industry. He graduated from Southwest Petroleum University (西南石油學院) in 1990, majoring in drilling engineering. In 2007, he obtained a Master's Degree in Engineering from China University of Petroleum, Beijing, majoring in oil and gas field development. Prior to joining the Group, Mr. Wang worked for No.2 Drilling Company of Zhongyuan Petroleum Exploration Bureau and Greatwall Drilling Engineering Company Limited successively, from 1990 to 2008. In addition, Mr. Wang published five articles in core domestic publications, such as "Oil Drilling & Production Technology" (《石油鑽採工藝》), and served as an editor for such publications. He compiled "A Practicable Book on English for Overseas Oil Drilling" (《海外石油鑽井英語實務》), a book published by China Commerce and Trade Press.

Mr. CAO Yuhong (曹育紅), aged 50, has been the general manager of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 29 years of experience in the petroleum industry. Prior to joining the Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) and served as its deputy manager of the coating branch in 1996. Mr. Cao received a Bachelor's Degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學), in 1991.

Mr. GAO Zhihai (高智海), aged 50, has been the chairman and general manager of Shanghai Boteng Welding Consumable Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 25 years of experience in the petroleum industry. Prior to joining the Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received a Bachelor's Degree in Engineering from Southwest Petroleum University in 1992 and a Master's Degree in Engineering in 1995. Mr. Gao became an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. XUE Zhijun (薛志軍), aged 56, is the general manager of Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司). Mr. Xue has over 15 years of experience in the petroleum industry. Prior to joining the Group, he served as the general manager of Bohai NKK Drill Pipe Co., Ltd. (渤海能克鑽杆有限公司) from 2004 to 2008. From 2008 to 2010, he served as the deputy manager of First Machinery Factory of CNPC Bohai Petroleum Equipment Manufacturing Company Limited (中國石油集團渤海石油裝備製造有限公司第一機械廠). Mr. Xue received a diploma in mining site machinery from Petroleum University (石油大學) in 1991 and a postgraduate diploma in industrial engineering from Tianjin University (天津大學) in 2005. He was awarded the "Outstanding Individual in the National West-East Natural Gas Transmission Project Construction"(國家西氣東輸工程建設先進個人) by the National West-East Natural Gas Transmission Project Leading Group (國家西氣東輸工程建設領導小組) in 2004 and the "Outstanding Entrepreneur in Hebei Province"(河北省優秀企業家) by Hebei Entrepreneurs Association (河北省企業家協會) in 2006.

Mr. XIAO Long (肖龍), aged 58, has been the general manager of Hilong Marine Engineering (Hong Kong) Limited since January 2014. Mr. Xiao has over 35 years of experience in the petroleum industry. Prior to joining the Group, from 1985 to 2012, Mr. Xiao worked at China National Offshore Oil Corporation (中國海洋石油總公司) and its subsidiaries (collectively "**CNOOC**") in the fields of construction project management and production management for offshore oil and gas field development projects. He also obtained certificates of senior engineer and general manager for ultra-large-scale projects issued by CNOOC. During his employment with CNOOC, Mr. Xiao served various positions including engineering supervisor, platform department manager, deputy principal project manager and principal project manager, and successfully undertook the construction project management of a number of large-scale offshore projects for CNOOC. From 2012 to 2013, he served as the vice president of Rongsheng Offshore & Marine Pte. Ltd., Singapore (熔盛海事有限公司) and the general manager of Jiangsu Rongsheng Offshore Engineering Co., Ltd. (江蘇熔盛海洋工程有限公司), and was mainly engaged in project management for construction of offshore vessels and equipment. Mr. Xiao graduated from Guangdong Mechanics Institute (廣東機械學院), now known as Guangdong University of Technology (廣東工業大學), with a Bachelor's Degree in Engineering in 1985.

Mr. XU Jianmin (許建民), aged 56, has been the general manager of Hilong Energy Technology Co., Ltd. (海隆能源技術有限公司) since February 2017, and the vice president of Hilong Group of Companies Ltd since January 2018. Mr. Xu has over 38 years of experience in the petroleum industry. He graduated from Southwest Petroleum University (西南石油大學) in 2007, with a Master's Degree in Engineering. Prior to joining the Group, Mr. Xu worked at Huabei Oil Field of China National Petroleum Corporation ("**CNPC**") from 1981 to 1999, and acted as the general manager for African business of CNPC, the manager for Sudanese business and deputy chief engineer from 1999 to 2017.

The Board of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own code of corporate governance. The Company has applied the principles set out in the CG Code during the year under review. The manner in which the principles and code provisions in the CG Code are applied and implemented during the year ended 31 December 2019 is explained in this Corporate Governance Report.

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company acknowledges the important role of its Board in providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations.

In the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code throughout the year.

The Board will, from time to time, review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions of Directors.

Specific enquiry has been made to all the Directors and the all Directors confirmed that they have complied with the Model Code throughout the year.

The Company has also established written guidelines (the "**Employees Written Guidelines**") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and makes objective decisions in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The Board currently comprises eight Directors, consisting of two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors.

The composition of the Board is as follows:

Executive Directors:
Mr. Zhang Jun *(Chairman and Executive Chairman)*
Mr. Wang Tao (汪濤) *(Chief Executive Officer)*

Non-executive Directors:
Ms. Zhang Shuman
Mr. Yuan Pengbin
Mr. Li Huaiqi [(1)]
Dr. Yang Qingli

Independent Non-executive Directors:
Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis
Mr. Liu Haisheng [(2)]
Mr. Shi Zheyan

(1) Mr. Li Huaiqi retired as a Non-executive Director with effect from 21 June 2019.

(2) Mr. Liu Haisheng retired as an Independent Non-executive Director with effect from 21 June 2019.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Mr. Zhang Jun is the elder brother of Ms. Zhang Shuman.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication of a majority of Directors.

During the year, the Board held four meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Mr. Zhang Jun	4/4
Mr. Wang Tao (汪濤)	4/4
Ms. Zhang Shuman	4/4
Mr. Yuan Pengbin	4/4
Mr. Li Huaiqi [(1)]	1/1
Dr. Yang Qingli	4/4
Mr. Wang Tao (王濤)	4/4
Mr. Wong Man Chung Francis	4/4
Mr. Liu Haisheng [(2)]	1/1
Mr. Shi Zheyan	4/4

(1) Mr. Li Huaiqi retired as a Non-executive Director with effect from 21 June 2019.

(2) Mr. Liu Haisheng retired as an Independent Non-executive Director with effect from 21 June 2019.

Apart from regular Board meetings, the Chairman also held a meeting with the Independent Non-executive Directors without the presence of other Directors during the year.

Chairman and Chief Executive Officer

The roles of chairman and chief executive officer are separate and are being performed by two different individuals. Mr. Zhang Jun is the Chairman of the Company, providing leadership and is responsible for the effective functioning and leadership of the Board. Mr. Wang Tao (汪濤) is the Chief Executive Officer of the Company and focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

Throughout the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director regarding his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

All Directors, including the Non-executive Directors and the Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Independent Non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Terms of Directors

Each of the Directors of the Company is engaged on a service contract (in the case of Executive Director) or on a letter of appointment (in the case of Non-executive Director and Independent Non-executive Director) for a term of three years, and is subject to retirement by rotation and re-election at least once every three years in accordance with the Articles of Association of the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the leadership and control of the Company, oversees the businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising the affairs of the Company and its member companies (the "**Group**"). The Directors of the Board make decisions objectively in the interests of the Company.

The Board reserves for its decision on all major matters of the Company including the approval and monitoring of all policy matters, overall strategies and budgets, internal control system and risk management system, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have full and timely access to all the information of the Company and may seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board, for discharging their duties to the Company.

All Directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

Continuing Professional Development of Directors

The Directors have to always pay attention to their responsibilities as the directors of the Company and pay attention to the operation mode, business activities and development of the Company.

Each newly appointed Director will receive comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for the Directors and trainings conducted/hosted by external advisers will be arranged. Also, reading materials on relevant topics will be provided to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year, the Company organised training conducted by the legal advisers for all Directors. In addition, relevant reading materials including legal and regulatory updates, training materials on disclosure obligations of listed issuers have been provided to the directors for their reference and studying.

The training records of the Directors for the year are summarised as follows:

Directors	Type of Training[Note]
Executive Directors	
Mr. Zhang Jun	A&B
Mr. Wang Tao (汪濤)	A&B
Non-executive Directors	
Ms. Zhang Shuman	A&B
Mr. Yuan Pengbin	A&B
Mr. Li Huaiqi (1)	B
Dr. Yang Qingli	A&B
Independent Non-executive Directors	
Mr. Wang Tao (王濤)	A&B
Mr. Wong Man Chung Francis	A&B
Mr. Liu Haisheng (2)	B
Mr. Shi Zheyan	A&B

(1) Mr. Li Huaiqi retired as a Non-executive Director with effect from 21 June 2019.

(2) Mr. Liu Haisheng retired as an Independent Non-executive Director with effect from 21 June 2019.

Note:
Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 5 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, overseeing the Company's financial reporting system, risk management system and internal control system, reviewing and monitoring effectiveness of internal audit function, making recommendation to the Board on the re-appointment, remuneration and terms of engagement of external auditor and monitoring the independence of external auditor, and reviewing arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, risk management and internal control or other matters of the Company.

During the year, the Audit Committee held three meetings to review annual financial results and report in respect of the year ended 31 December 2018, interim financial results and report in respect of the six months ended 30 June 2019, the unaudited consolidated financial statements for the nine months ended 30 September 2019, and significant issues on financial reporting and compliance procedures, risk management system and internal control system, relationship with auditors including the remuneration, terms of engagement, independence and re-appointment of auditors, non-exempt continuing connected transactions, arrangements for employees to raise concerns about possible improprieties, and to evaluate and assess the effectiveness of the Audit Committee and the adequacy of the terms of reference of the Audit Committee and consider whether any update or amendment is required.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Wong Man Chung Francis	3/3
Mr. Wang Tao (王濤)	3/3
Ms. Zhang Shuman	3/3

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of the Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year, the Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the Directors and senior management, key terms of the new service contracts entered with two Executive Directors and new letters of appointment entered with two Non-executive Directors and an Independent Non-executive Director and other related matters, and to evaluate and assess the effectiveness of the Remuneration Committee and the adequacy of the terms of reference of the Remuneration Committee and consider whether any update or amendment is required.

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Wang Tao (王濤)	2/2
Mr. Yuan Pengbin	2/2
Mr. Wong Man Chung Francis	2/2

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the Board Diversity Policy, as appropriate, reviewing the measurable objectives that the Board has set for implementing the Board Diversity Policy, and monitoring the progress on achieving the objectives, and assessing the independence of Independent Non-executive Directors; reviewing and assessing the adequacy of the corporate governance guidelines of the Company and making recommendations to the Board for any proposed changes.

In assessing the Board composition and identifying and selecting suitable candidates for directorships, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy to implement the corporate strategy of the Company. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year, the Nomination Committee met three times to review the structure, size, composition and diversity of the Board, the "Board Diversity Policy" and consider whether any update or amendment is required, the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the Annual General Meeting, and to evaluate and assess the effectiveness of the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required. Also, the Nomination Committee submitted the retirement of Mr. Li Huaiqi as a Non-executive Director and Mr. Liu Haisheng as an Independent Non-executive Director with effect from 21 June 2019 and also the proposal for the appointment of Mr. Shi Zheyan, Independent Non-executive Director, as a member of the Nomination Committee in place of Mr. Liu Haisheng with effect from 21 June 2019 to the Board for acceptance, review and approval in June 2019.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Wang Tao (王濤)	3/3
Mr. Wang Tao (汪濤)	3/3
Mr. Liu Haisheng (1)	1/1
Mr. Shi Zheyan (2)	1/1

(1) Mr. Liu Haisheng retired as an Independent Non-executive Director with effect from 21 June 2019.

(2) Mr. Shi Zheyan was appointed as a member of the Nomination Committee with effect from 21 June 2019.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

The Board has adopted the "Board Diversity Policy" with a view to achieving sustainable and balanced development in the Board. Selection of board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional and industry experience, skills, knowledge and length of service with the Group. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

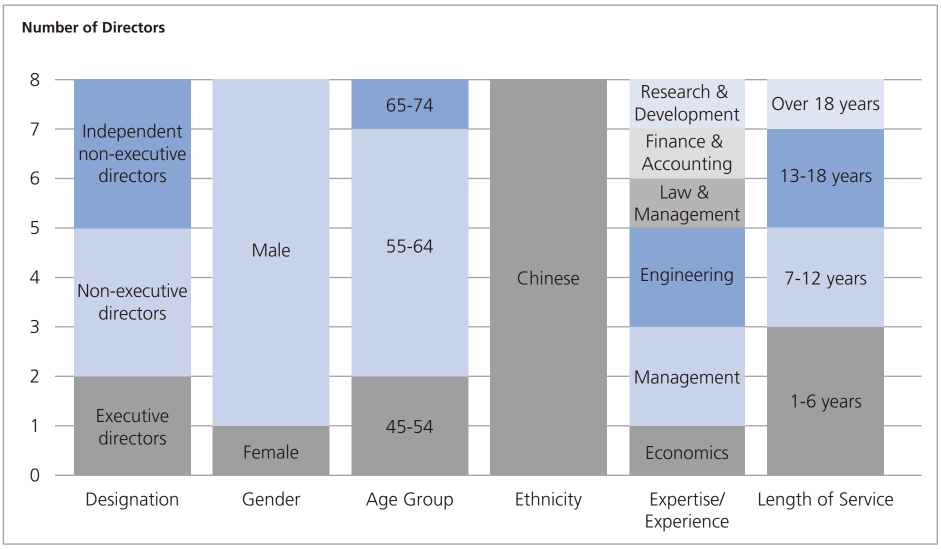
The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

The following chart shows the diversity profile of the Board as at December 31, 2019:



Nomination Policy

The Board has delegated its responsibilities and authority for selection and nomination of suitable candidate for appointment as Directors to the Nomination Committee of the Company.

The Board has adopted a Nomination Policy which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors and ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Policy sets out the criteria for the selection of a proposed candidate, including but not limited to the following:

- Reputation for integrity;
- Accomplishment and experience;
- Compliance with legal and regulatory requirements;
- Commitment in respect of available time and relevant interest; and
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Nomination Policy also sets out the criteria for evaluation and recommendation to the Board on the re-appointment of retiring Director(s) and the position(s) of the independent non-executive Directors, and the process and procedures for the nomination of Directors:

- The Secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

- For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

- Pursuant to the Articles of Association of the Company, if a shareholder wishes to propose a person for election as a Director, such shareholder shall have given a notice in writing of the intention to propose that person for election as a Director and also a notice in writing by that person of his willingness to be elected shall be given to the Company at least seven (7) days before the date of general meeting. Such period for lodgment of the notices shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

- A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the company secretary of the Company.

- The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

During the year, Mr. Li Huaiqi retired as a Non-executive Director and Mr. Liu Haisheng retired as an Independent Non-executive Director both with effect from 21 June 2019. Mr. Shi Zheyan, Independent Non-executive Director, was appointed as a member of the Nomination Committee in place of Mr. Liu Haisheng with effect from 21 June 2019.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board met twice to review the Company's corporate governance policies and practices, contribution required from directors for performing their responsibilities, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and Employees Written Guidelines, the Company's compliance with the CG Code and disclosure in this Corporate Governance Report, and review the dividend policy of the Company.

DIRECTORS' RESPONSIBILITIES FOR PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 68 to 72 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	3,700
Non-audit Services	
– Tax services	216
– Other non-audit services	2,028
Total	5,944

DIVIDEND POLICY

Subject to the Cayman Islands Companies Law and the Articles of Association of the Company, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. Declaration of dividend is subject to the discretion of the Board, taking into consideration of, among others, the following factors:

(i) results of operations;

(ii) cash flows and financial condition;

(iii) operation and capital requirements;

(iv) shareholders' interests;

(v) general business conditions and strategies;

(vi) taxation considerations;

(vii) contractual, statutory and regulatory restriction, if any; and

(viii) any other factors that the Board may deem relevant.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the profits of the Company, and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend. The Board may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment. At the time when dividend payment is made, the Company should consider reserving appropriate amount of reserve for present or future circumstances and make no declaration or payment thereon.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the risk management system and internal control system and reviewing their effectiveness on an ongoing basis. Such risk management system and internal control system are designed for managing instead of eliminating the risks of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee that set up by the Board is responsible for oversee and review the risk management system and internal control system of the Group, and monitor the design, implementation and monitoring functions on the risk management system and internal control system. Through the reporting and recommendation given by the internal audit team, the Audit Committee is responsible to review and comment the effectiveness of the risk management system and internal control system.

Management has reported and confirmed to the Audit Committee and the Board that the relevant systems have been effective for the year ended 31 December 2019 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management system and internal control system are effective.

The Company established the risk management system and internal control system according to the following principles, main features are shown as below:

(1) **Alignment to the Company's strategy:** The enterprise risk management is aligned to the Company's strategic targets;

(2) **Compliance:** The Company complies with relevant laws and regulations including the Listing Rules and relevant management systems, including but not limited to the compliance with the terms of the agreements on the Company's continuing connected transactions and listing rules requirements on continuing connected transactions;

(3) **Comprehensiveness:** Enterprise risk management involves all employees of the Company, and plays important roles in decision-making, management and execution in all areas of businesses;

(4) **Materiality:** The Company focuses on risk management of key businesses and high risk areas;

(5) **Cost effectiveness:** The Company optimises existing resources, and implements effective risk control procedures at a reasonable cost to enhance the efficiency and effectiveness of risk management system and internal control system.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment;
- Determines the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks; and
- Strengthens the monitoring and warning function of the system continuously based on the result of risk assessment.

Risk Monitoring and Reporting

- Establishes hierarchical supervisory responsibilities in the Group to ensure that risk monitoring is objective and effective;
- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;
- Revises the risk management strategies and internal control procedures in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Internal Audit Function

The Group has established an internal audit team, which assesses the adequacy and effectiveness of the risk management system and internal control system of the Group regularly, and reports to the Audit Committee and the Board on the audit results semi-annually and makes recommendations to the Board and the management to address the significant deficiencies of the system or problems that identified during the monitoring process.

Company Inside Information Management

Important inside message delivered through Company's mailbox and important electronic files were encrypted by password. In addition, the Company has set up "whistle-blowing" window to enhance control of inside information leakage.

COMPANY SECRETARY

Ms. Sham Ying Man is the company secretary of the Company. The primary contact person at the Company is Ms. Zhang Shuman (Non-executive Director). Ms. Sham Ying Man is a manager of Tricor Services Limited, a global professional service provider specialising in integrated business, corporate and investor services. The company secretary attended sufficient professional training as required under the Listing Rules for the year ended 31 December 2019 to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution would be proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the Company's Articles of Association and results of the poll will be posted on the websites of Hong Kong Exchanges and Clearing Limited and the Company after each general meeting.

Pursuant to the Articles of Association, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The purpose of the meeting must be stated in the written requisition.

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

As regards proposing a person for election as a Director of the Company, please refer to the procedures posted on the Company's website.

Shareholders may send written enquiries or requests to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	Suite 3206, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (For the attention of Ms. Zhang Shuman, Director)
Fax:	+852 2506 0109
Email:	amyszhang@hilonggroup.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The attendance records of Directors at the annual general meeting held during the year are as follows:

Name of Directors	Attendance
Mr. Zhang Jun	1/1
Mr. Wang Tao (汪濤)	0/1
Ms. Zhang Shuman	1/1
Mr. Yuan Pengbin	0/1
Mr. Li Huaiqi (1)	0/1
Dr. Yang Qingli	1/1
Mr. Wang Tao (王濤)	0/1
Mr. Wong Man Chung Francis	1/1
Mr. Liu Haisheng (2)	0/1
Mr. Shi Zheyan	0/1

(1) Mr. Li Huaiqi retired as a Non-executive Director with effect from 21 June 2019.

(2) Mr. Liu Haisheng retired as an Independent Non-executive Director with effect from 21 June 2019.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner. At the Annual General Meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer questions at their enquires.

During the year, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is available on the websites of the Company and Hong Kong Exchanges and Clearing Limited. Shareholders may refer to the Articles of Association for further details of their rights.

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group is an integrated oil field equipment and services provider with a focus on oilfield services, line pipe technology and services, oilfield equipment manufacturing and services and offshore engineering services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements of this annual report.

BUSINESS REVIEW

Overview and performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial key performance indicators is provided in the Management Discussion and Analysis section on pages 6 to 21 of this annual report. Such section constitutes part of this directors' report.

Environmental Policies and Performance

Our production processes primarily involve the manufacture and assembly of components and we do not operate in a highly-polluted industry. Our operations in the PRC are subject to a number of environmental laws and regulations including the Environmental Protection Law, Air Pollution Prevention Law, Water Pollution Prevention Law and its Implementing Regulations, Rules on the Administration concerning Environmental Protection of Construction Projects, Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects, etc. Pursuant to such laws and regulations, the discharge and disposal of contaminants, toxic and hazardous materials, including manufacturer's waste water, solid waste and waste gases, must comply with the applicable national and local standards. For the year ended 31 December 2019, the Group has been committed to complying with such applicable standards and the aforesaid environmental protection laws and regulations. Further, the Group did not incur any material cost in complying with such laws and regulations during the reporting period.

The Company places environmental protection as one of its top priorities. The Group has developed its own HSE management system with an objective that its operations do not cause any damage to the environment. The HSE policy has been strictly followed. In addition, several of the Group's subsidiaries have obtained certifications from Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) and ABS Quality Evaluations Inc. that their environmental management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of the ISO 14001 standards.

When providing services to our clients, Hilong not only complies with the applicable local environmental laws and regulations of places it operates, but also spares every effort to assist clients to reduce waste and waste treatment costs through optimizing its operation procedures and adopting new technologies even it is clients' responsibility to take charge of the waste produced (such as cuttings, waste mud, greenhouse gases emission) from their operation activities. Since its foundation in 2008, Hilong and its overseas subsidiaries have never received any complaints or fines from clients or local governments.

Our operations involve welding, handling of heavy machinery and components and hazardous chemicals. As a result, our employees may face the risk of various work-related injuries and accidents. We are subject to relevant rules and regulations on occupational health and safety such as the Safe Production Law, Law of the PRC on the Prevention and Treatment of Occupational Diseases, and Regulations on the Reporting, Investigation and Handling of Work Safety Accidents. We have established HSE and safety production policies and management system to ensure that all parts of our operations are in compliance with existing laws and regulations on occupational, safety and health. In addition, several subsidiaries of the Group have obtained certifications from American Bureau of Shipping (ABS) and Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) that their health and safety management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of certain international standards in relation to occupational, health and safety system such as the OHSAS 18001. Also, Hilong's safety management system of the pipe-laying and derrick vessel, Hilong 106, has been certified by ABS that it has complied with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention. For the year ended 31 December 2019, there had been no instance of major work related injuries or casualties which could have a material and adverse impact upon our business and operations.

The Group also implemented several measures in order to mitigate emissions produced by the Group's offices, such as reducing energy consumption by switching off lightings and electrical appliances and using of LED lamps, implementing double-sided printing and copying, setting up recycling bins, promoting the use of recycled paper.

Compliance with relevant Laws and Regulations

For the year ended 31 December 2019, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impact on the Group.

On environmental matters, occupational health and safety, the Group is subject to various laws and regulations in relation to environmental protection and workplace safety. As mentioned in the section headed "Environmental Policies and Performance" above, for the year ended 31 December 2019, the Group has been committed in complying with the applicable standards on discharge and disposal of contaminants, toxic and hazardous materials and the applicable environmental protection laws and regulations. Regarding production safety, the Group has policies and measures in place to prevent and eliminate occupational damages and ensure safe production environment including (i) designating staff to be responsible for managing production safety; (ii) providing relevant employees of appropriate safety classes and training to ensure they possess the required knowledge and management skills on production safety; (iii) erecting appropriate safety signage on dangerous equipment and installations; (iv) ensuring safety-related equipment comply with national or industry standards; and (v) formulating emergency response plan for occupational diseases and accidents.

Our business involves production of hazardous chemicals and production, usage, and inspection of special equipment such as pressure pipelines. We are required by the relevant laws and regulations such as Regulations on the Administration of Permits for the Production of Industrial Products and Regulation to obtain production permits from designated authorities before manufacturing such products and equipment. For the year ended 31 December 2019, the Group obtained necessary production permits from the relevant authorities before commencing the production of hazardous chemical and special equipment.

On employees' rights and interests, the Group has been committed in complying with the requirements of the Labour Law of the People's Republic of China and Law of People's Republic of China on Employment Contracts and other relevant overseas laws and regulations in relation to employees' rights in order to safeguard all employees' rights and interests. All full-time employees in the PRC are covered by a state-managed retirement benefit plan operation by the government of the PRC, and are entitled to an annual pension. The Group has made annual contributions to the state-managed retirement benefit as required under the relevant law. The Group has also made contributions to a defined contribution mandatory provident fund for all full-time employees in Hong Kong.

On taxation, the Group is subject to various taxation. Details of such taxes and compliance of the Group with such applicable tax laws are set out in note 24 to the consolidated financial statements of this annual report.

On corporate compliance, the Group has complied with the requirements under the Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Securities and Futures Ordinance (the "**SFO**") and the Corporate Governance Code (the "**CG Code**") for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**").

KEY RELATIONSHIPS WITH STAKEHOLDERS

The Company has always been actively fulfilling its social responsibility. The Group, with high quality products and services, is committed to creating good internal and external corporate relationships, and build a harmonious enterprise to take its responsibilities for customers, employees, shareholders and community.

Relationship with customers – Our customers primarily include a number of major PRC and international oil and gas companies. We have maintained well-established relationships with some of the largest PRC oil and gas companies by the provision of quality products, services and after-sales services. We have also maintained regular communications with these customers in order to understand their concerns, standards and industry trends. So far, our performance is widely recognized by the customers.

Relationship with employees – The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, trainings and guidelines are implemented to ensure that the working environment is healthy and safe. The Group provided regular occupational health and safety check-ups and trainings for its employees. Employees are regarded as the most important and valuable assets of the Group. The management met with the employee representatives regularly to understand the concerns of employees. The objectives of the Group's human resources management are to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate trainings and by providing opportunities within the Group for career advancement.

Relationship with shareholders – The Group recognizes the importance of protecting the interests of shareholders and having effective communications with them. The Group believes that the communication with its shareholders is a two – way process and thrives to ensure the quality and effectiveness of information disclosure, maintain regular dialogues with its shareholders and listen carefully to the views and feedback it receives from its shareholders. This can be done through annual general meetings, extraordinary general meetings, corporate communications, interim and annual reports and results announcements.

Relationship with the community – The Group is committed to participating in community events and has worked with a number of charitable organizations with an aim to improve community well-being and social services. The Group believes that by encouraging the staff to participate in a wide range of charitable events, the concern for the community will be raised and boosted.

KEY RISKS AND UNCERTAINTIES

Decline in domestic and international oil and natural gas prices – The economic condition, market uncertainty and various factors that are beyond our control, including actions by major oil-producing countries and the prices and availability of other energy resources, may reduce the worldwide demand for oil and natural gas and result in a decline in the prices for oil and natural gas. For example, as a result of the negative impact of recent outbreak of COVID-19 on global demand and the failure of OPEC and Russia to reach an agreement on production cuts, the crude oil price declined dramatically. Any decline in the prices of oil and natural gas, even for a short period of time, may reduce or curtail the expenditure by oil and gas companies in connection with exploration, drilling and production activities, which may result in lower sales volumes and prices for our drilling-related products and oil field services in the PRC and overseas, and may materially and adversely affect our business, financial condition and results of operations.

Failure to renew our certification as a supplier of our key customers – We are approved by our key customers such as CNPC and Sinopec as their suppliers. Such status is necessary for us to sell our products to the subsidiaries or branch oil fields of our major customers. However, such status may be suspended if the Group, amongst other things, delays delivery, has operational problems, is unable to provide after-sales services, or has unsatisfactory financial results. In the event that such status is suspended or terminated by our key customers, or that we are unable to renew such status, our business, financial condition and results of operations may be adversely affected.

Delay or rescheduling of oil and gas pipeline projects – We derive a significant portion of our revenue from sales of drill pipes, coating materials and related services. Planned and ongoing oil and gas pipeline projects can be delayed or rescheduled for a number of reasons including changes in business strategy of pipeline operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. Should any of the major projects of our clients to which we plan to supply our products and services be delayed or rescheduled, our business, financial condition and results of operations could be materially affected.

Failure to develop or adopt new production technologies – The oil and gas industry is competitive and the production technology underlying the industry is rapidly evolving. As customers' needs, related technologies and market trends are subject to change, the Group may not be able to correctly predict the trends in a timely manner or develop or adopt competitive technology on a timely basis, whether developed in-house or obtained through licence. Even if the Group has put in substantial investment of resources, time and capital to respond to and adapt to technological developments and changes in the oil and gas industry, there can be no assurance that the Group will succeed in adequately responding and adapting to such technological and industry developments. In the event that the Group is unable to respond successfully to technological and industry developments, its business, results of operations and competitiveness may be affected.

Certain risks inherent in overseas operations and risks associated with the international expansion of the Group's business – During the reporting period, a large portion of our revenue was derived from our oilfield services segment from the non-PRC markets. In addition, the Group generated a significant portion of drill pipes and related products revenue from sales to non-PRC markets. Further, as part of the business strategy, the Group intends to expand its business into other regions of the world. As a result, the Group may face certain risks inherent in its overseas operations and risks associated with its efforts to expand and maintain its business in international markets, including cultural differences and other difficulties in staffing and managing international operations; volatility in currency exchange rates; risks that foreign countries may impose withholding taxes; risks of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade; etc. If any of these risks materializes, or if the Group is unable to manage these risks effectively, the Group's ability to maintain or expand international business would be impaired, which may in turn affect the Group's business, financial condition, results of operations and prospects.

Potential impact of the recent outbreak of COVID-19 on the Group's business, results of operations and financial position – The recent outbreak of COVID-19 has impacted the global business across all industries, including oil and gas industries and upstream companies. As a result of the negative impact of recent outbreak of COVID-19 on global demand and the failure of OPEC and Russia to reach an agreement on production cuts, the crude oil price declined dramatically. Any decline in the prices of oil and natural gas, even for a short period of time, may reduce or curtail the expenditure by oil and gas companies in connection with exploration, drilling and production activities.

Apart from the negative impact on the demands and sales, the ongoing concern regarding the COVID-19, particularly in relation to restrictions on travel and quarantine, may adversely affect the Group's business in regions where we or third parties on which we rely have business operations. For example, if any of our employees were suspected of contracting or contracted COVID-19, we may be required to quarantine some or all of our employees and disinfect our offices, manufacturing sites or operation sites. Likewise, any regulatory or administrative measures to quarantine the affected areas or other measures to control or contain the outbreak of COVID-19 that may be imposed by the government in different affected jurisdictions, such as any temporary closure of factories of our suppliers of our third-party brand products and/or the manufacturers of our products or any restrictions on the access thereto, may also cause material disruption to the business operations of our Group. The ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to changes. We will continue to monitor the COVID-19 situation closely.

Prospects

The prospects of the Group is provided in the Chairman's Statement on pages 2 to 4 and in the Management Discussion and Analysis section on pages 6 to 21 of this annual report.

DIVIDEND

During the year ended 31 December 2019, a final dividend of HK1.0 cent per share, amounting to a total dividend of approximately HK$17.0 million (equivalent to approximately RMB15.3 million) for the year ended 31 December 2018, was paid to the shareholders of the Company.

The Board resolved to recommend the payment of a final dividend of HK2.0 cents per share, amounting to approximately HK$33.9 million (equivalent to approximately RMB30.5 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2019, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company ("**AGM**"). Upon approval of the shareholders at the forthcoming AGM, the proposed final dividend is expected to be paid on 10 July 2020 to the shareholders of the Company whose names appear on the register of members of the Company as at 30 June 2020.

RESERVES

Details of movement in the reserves of the Company and the Group for the year ended 31 December 2019 are set out in notes 18 and 32 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2019, the reserves of the Company available for distribution to shareholders amounted to RMB1,241.4 million (2018: RMB1,241.1 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate revenue from sales of goods or rendering of services attributable to the Group's largest customer and five largest customers were 7.6% and 25.9% of the Group's total revenue from sales of goods or rendering of services respectively (2018: 9.2% and 26.9%). The aggregate purchases attributable to the Group's largest supplier and five largest suppliers were 9.1% and 30.4% of the Group's total purchases respectively during the year under review (2018: 6.6% and 28.3%).

During the year, to the best knowledge of the Directors, none of the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the issued shares of the Company) had any interest in any of the five largest customers or suppliers of the Group.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2019 are set out in note 14(d) to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 7 to the consolidated financial statements.

ISSUED SHARES

Details of and reasons for movements in the total issued shares of the Company during the year under review are set out in note 17 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 168 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association (the "**Articles**") or the laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DIRECTORS

The Directors during the year and up to the date of this report are as follows:

Executive Directors

Mr. Zhang Jun (張軍)
Mr. Wang Tao (汪濤)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Li Huaiqi (李懷奇) (retired on 21 June 2019)
Dr. Yang Qingli (楊慶理)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Liu Haisheng (劉海勝) (retired on 21 June 2019)
Mr. Shi Zheyan (施哲彥)

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent.

Mr. Zhang Jun, Mr. Yuan Pengbin and Mr. Wong Man Chung Francis will retire by rotation as the Directors at the forthcoming AGM of the Company in accordance with Article 84 of the Articles and pursuant to Appendix 14 of the Listing Rules. Mr. Yuan Pengbin has informed the Company that he will not seek re-election at the AGM due to reaching the retirement age and will therefore retire at the conclusion of the AGM. Mr. Zhang Jun and Mr. Wong Man Chung Francis, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company under which he agreed to act as an Executive Director for a term of three years, which may be terminated by not less than one month's notice in writing served by either the Executive Director or the Company. Each of the Non-executive Directors and the Independent Non-executive Directors has signed an appointment letter with the Company for a term of three years which may be terminated by one month's notice (in the case of the Non-executive Director) or not less than one month's notice (in the case of the Independent Non-executive Director) served by either the Non-executive Director/Independent Non-executive Director or the Company. The appointments of Directors are subject to the provisions of retirement by rotation of Directors under the Articles.

None of the Directors (including those proposed for re-election at the forthcoming AGM) has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merits, qualifications and competence.

The Remuneration Committee considers and recommends to the Board on the remuneration and other benefits paid by the Company to the Directors by reference to the Company's operating results, individual performance and comparable market rates. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate.

As at 31 December 2019, the total number of full-time employees of the Group was 3,188 (31 December 2018: 3,405). Employee costs excluding the Directors' remuneration totalled RMB684.9 million for the year of 2019. The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

The Company ratified and adopted a Pre-IPO share option scheme on 28 February 2011. The Pre-IPO share option scheme commenced on 1 January 2011. During 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO share option scheme, have been granted.

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 annual report, none of the share options granted under the Post-IPO share option scheme was exercised.

Details of Directors' remuneration are set out in note 21(a) to the consolidated financial statements.

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2019 were within the following bands:

	Number of Senior Management
HK$1,000,001 to HK$1,500,000	6
HK$1,500,001 to HK$2,000,000	4
	10

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, as at 31 December 2019 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance in relation to the Group's business was entered into between the Company, or any one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2019.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles, the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2019 which is still in force.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as the Pre-IPO share option scheme and the Post-IPO share option scheme, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements that would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements subsisting at the end of the year are set out below. Other than the below share option schemes, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2019.

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a Pre-IPO share option scheme (the "**Pre-IPO Scheme**") on 28 February 2011. According to the terms of the Pre-IPO Scheme, the option period of the Pre-IPO Scheme is 30 days after the adoption date (both days inclusive), so the option period of the scheme expired on 30 March 2011. The Pre-IPO Scheme commenced on 1 January 2011. The following is a summary of the principal terms of the Pre-IPO Scheme:

(a) Purpose

The Pre-IPO Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) have or may have made to the Company. The Pre-IPO Scheme will provide the Eligible Participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Company; and

(ii) attract and retain or otherwise maintain relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Company.

(b) Who may join

The eligible participants (collectively the "**Eligible Participants**") under the Pre-IPO Scheme include the following:

(i) the full-time employees, executives or officers (including Executive, Non-executive and Independent Non-executive Directors) of the Company;

(ii) the full-time employees of any of the subsidiaries of the level of manager or above;

(iii) technical experts that have contributed or will contribute to the Company and/or any of its subsidiaries; and

(iv) any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Company and/or any of the subsidiaries.

Upon acceptance of the option, the grantee shall pay RMB1.00 to the Company by way of consideration for the grant.

(c) Maximum number of Shares

The total number of shares subject to the Pre-IPO Scheme is 46,322,000 shares, representing approximately 2.73% of the issued share capital of the Company as at the date of this annual report. During the year of 2011, all the options under the Pre-IPO Scheme that would entitle the holders to subscribe for an aggregate of 46,322,000 shares have been granted. Certain Eligible Participants have been granted options that entitle each of them to subscribe for 2,150,000 shares, representing approximately 0.13% of the issued share capital of the Company as at the date of this annual report, being the highest entitlement for each participant under the Pre-IPO Scheme.

(d) Subscription price

The subscription price of a share in respect of any particular option granted under the Pre-IPO Scheme shall be a price equivalent to the offer price of the Company's shares under the Global Offering, being HK$2.60.

(e) Time of exercise of option and duration of the Pre-IPO Scheme

The grantees to whom options has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date of listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") ("**Listing Date**") and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period, which must not be more than 10 years from the Listing Date. Therefore, as at 31 December 2019, the remaining life of the Pre-IPO Scheme was approximately one year and three months.

(f) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the expiry of the respective stated exercise period in the Pre-IPO Scheme;

(ii) the date of expiry of the option as may be determined by the Board;

(iii) the date of commencement of the winding-up of the Company in accordance with the Companies Law of the Cayman Islands;

(iv) the date on which the grantee ceases to be an Eligible Participant for any reason as specified in the scheme document including death, resignation, dismissal, material misconduct or criminal offences in respect of dishonesty. A resolution of the Board or the relevant board of the relevant subsidiary to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in the scheme document shall be conclusive; or

(v) the date on which the Board shall exercise the Company's right to cancel the option in the case that the Pre-IPO Scheme is terminated by resolution in general meeting or by the Board.

The following table sets out particulars of the options granted and outstanding under the Pre-IPO Scheme and their movements during the year:

	Number of Shares								
Category/ name of grantees	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2019	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
In aggregate	5,500,000	–	–	–	5,500,000				
Employees of the Group other than Directors									
In aggregate	24,064,300	–	–	64,000	24,000,300	2.60		1 January 2011	21 April 2012– 31 December 2020
Total	29,564,300	–	–	64,000	29,500,300				

POST-IPO SHARE OPTION SCHEME

The Company adopted a Post-IPO share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. The remaining life of the Post-IPO Scheme is approximately three years and four months as at 31 December 2019. The following is a summary of the principal terms of the Post-IPO Scheme:

(a) Purpose

The purpose of the Post-IPO Scheme is to provide incentive or reward to certain directors and employees of the Group for their contribution to the Group.

(b) Who may join

Any Director (whether executive or non-executive, including any Independent Non-executive Director) or employee (whether full-time or part-time) of the Group (the "**Eligible Persons**") is eligible to participate in the Post-IPO Scheme. Payment of option price of HK$1.00 shall be made upon acceptance of the offer of options.

(c) Maximum number of shares

The aggregate number of shares which may be issued upon exercise of all options to be granted under the Post-IPO Scheme as well as any new share option scheme of the Company which may be adopted must not, in aggregate, exceed 5% of the total number of shares in issue as at the date of adoption of the Post-IPO Scheme or any new share option scheme (as the case may be). The maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of shares in issue from time to time.

The total number of shares subject to the Post-IPO Scheme is 81,573,950 shares, representing approximately 4.81% of the issued share capital of the Company as at the date of this annual report.

(d) Maximum entitlement of each participant under the Post-IPO Scheme

No share option shall be granted to any Eligible Person if, at the relevant time of grant, the number of shares of the Company issued and to be issued upon exercise of all options (granted, proposed to be granted, whether exercised, cancelled or outstanding) to the relevant Eligible Person in the 12-month period up to and including the date of such grant would exceed 1% of the total number of shares in issue at such time.

(e) Subscription price

The price at which each share subject to an option may be subscribed for on the exercise of that option shall be a price solely determined by the Board and notified to an Eligible Person and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares.

(f) Time of exercise of option and duration of the Post-IPO Scheme

The Post-IPO Scheme shall be valid and effective for a period of ten years commencing from 10 May 2013; after such date no further share option shall be granted. Subject to the above, in all other respects, in particular, in respect of options remaining outstanding on the expiry of the ten-year period, the provisions of the Post-IPO Scheme shall remain in full force and effect. The Post-IPO Scheme does not stipulate either a minimum period for which an option must be held or any performance targets a grantee is required to achieve before an option may be exercised. However, the Board may at its discretion specify any conditions which must be satisfied before the option may be exercised in the offer letter whereby the option is offered.

(g) Expiry of option

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

(i) the expiry of the period during which the option may be exercised;

(ii) subject to a general offer by way of a take-over is made to all the shareholders of the Company and such offer becomes or is declared unconditional, the expiry of the 21-day period during which the grantee may by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice;

(iii) subject to the scheme of arrangement becoming effective, the expiry of the period during which the grantee may by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice;

(iv) subject to the compromise or arrangement becoming effective, the expiry of the period as specified in the Post-IPO Scheme during which the grantee may exercise any of his options in full or in part;

(v) the date on which the grantee ceases to be an Eligible Person for any reason, or die or becomes permanently disable, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts, or has become insolvent, or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;

(vi) subject to a notice being given by the Company to its shareholders to convene a general meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the date of commencement of the winding-up of the Company;

(vii) the date on which the grantee commits a breach of the transfer restrictions of the options as specified in the Post-IPO Scheme;

(viii) the date on which the option is cancelled by the Board with the approval of the grantee of such option; or

(ix) the non-fulfillment of any condition to the Post-IPO Scheme on or before the date stated therein.

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.

The following table sets out particulars of the options granted and outstanding under the Post-IPO Scheme and their movements during the year:

	Number of Share Options									
Category/ name of grantees	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2019	Exercise price HK$	Closing Price immediately before the date of grant HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Employees of the Group other than Directors										
In aggregate	17,221,200	–	–	1,163,100	16,058,100	5.93	5.72	–	5 February 2014	5 February 2015- 4 February 2024

DISCLOSURE OF INTERESTS

A. Directors' interests and short positions in the securities of the Company and its associated corporations

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	881,581,000[1]	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800[2]	
	Beneficial owner	760,000	
		994,641,800	58.631%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000[3]	
	Beneficial owner	692,000	
		24,992,000	1.473%
Mr. Yuan Pengbin	Beneficial owner	1,151,600	0.068%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Dr. Yang Qingli	Interest of spouse	77,000[4]	0.005%

Notes:

(1) These shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as the trustee of Mr. Zhang's trust. As Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust as well as the sole director of Hilong Group Limited, he is deemed to be interested in these shares.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. As Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts as well as the sole director of North Violet Investment Limited and LongZhi Investment Limited, he is deemed to be interested in these shares.

(3) These shares are held by Younger Investment Limited of which Ms. Zhang Shuman is the sole director. Ms. Zhang Shuman is therefore deemed to be interested in these shares.

(4) These shares are held by Ms. Gao Chunyi, spouse of Dr. Yang Qingli. Dr. Yang Qingli is therefore deemed to be interested in these shares.

(b) Long positions in the underlying shares of the Company

Name of Director	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012–31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012–31 December 2020	0.04%
Mr. Yuan Pengbin	Beneficial owner	2,150,000	21 April 2012–31 December 2020	0.13%
Mr. Wang Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012–31 December 2020	0.13%

(c) Long positions in the shares of associated corporation of the Company

Name of Director	Capacity	Name of associated corporation	Number of shares interested	Percentage of the issued share capital of the associated corporation
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust	Hilong Group Limited	100	100%

B. Substantial shareholders' interests or short positions in the securities of the Company

As at 31 December 2019, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	881,581,000[(1)]	51.97%
SCTS Capital Pte Ltd.	Nominee	1,015,258,800[(1)(2)]	59.85%
Standard Chartered Trust (Singapore) Limited	Trustee	1,015,258,800[(1)(2)]	59.85%
Ms. Gao Xia	Interest of spouse	995,241,800[(3)]	58.67%

Notes:

(1) 881,581,000 shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.

(2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts.

(3) Ms. Gao Xia is the spouse of Mr. Zhang Jun and is therefore deemed to be interested in the shares and underlying shares of the Company in which Mr. Zhang Jun is interested.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2019 is contained in note 29 to the consolidated financial statements. The transactions between the Group and Mr. Zhang Jun (張軍), Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司), Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司) and Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司), respectively as described in note 29 fall under the definition of connected transactions or continuing connected transactions as disclosed on pages 60 to 65 of this annual report (as the case may be) under Chapter 14A of the Listing Rules, and also constitute related party transactions of the Group. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such connected transactions.

Particulars of the connected transactions and continuing connected transactions that are not exempt under Rule 14A.76 of the Listing Rules are set out as follows:

Connected Transactions

i. Acquisitions of the equity interests in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd ("Shanghai Tube-Cote") and Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd ("Jiangsu Tube-Cote")

On 3 September 2019, Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) ("**Hilong Group of Companies**"), a wholly-owned subsidiary of the Company, entered into the Shanghai Tube-Cote equity transfer agreement with UMW Petropipe (L) Ltd. (the "**Vendor**"), whereby Hilong Group of Companies agreed to acquire from the Vendor and the Vendor agreed to sell to Hilong Group of Companies 49% of its entire equity interest in Shanghai Tube-Cote at a consideration of RMB23,800,000.

On 3 September 2019, Hilong Technology Limited ("**Hilong Technology**"), a wholly-owned subsidiary of the Company, entered into the Jiangsu Tube-Cote equity transfer agreement (together with the Shanghai Tube-Cote equity transfer agreement, the "**Agreements**") with the Vendor, whereby Hilong Technology agreed to acquire from the Vendor and the Vendor agreed to sell to Hilong Technology 8.04% of its entire equity interest in Jiangsu Tube-Cote at a consideration of RMB4,200,000.

The Board (including the independent non-executive directors) considers that the acquisition of equity interest in Shanghai Tube-Cote and Jiangsu Tube-Cote (together, the "**Tube-Cote Acquisitions**") are beneficial to the Company. The acquisition of equity interest in Shanghai Tube-Cote allows the Company to have full control of Shanghai Tube-Cote, which would enhance the efficiency in carrying out the Company's business decisions and development strategies in respect of Shanghai Tube-Cote and to streamline the administrative procedures of Shanghai Tube-Cote. The acquisition of equity interest in Jiangsu Tube-Cote would enhance the Company's control over Jiangsu Tube-Cote, which also allows the Company to carry out its commercial strategies more effectively.

The Board (including the independent non-executive directors) is of the view that the Tube-Cote Acquisitions are on normal commercial terms and the terms of the Agreements are fair and reasonable and in the interests of the Company and its shareholders as a whole.

As the Vendor is a controlling shareholder of Shanghai Tube-Cote, a subsidiary of the Company, it is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Tube-Cote Acquisitions constitute connected transactions of the Company.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, as the Agreements were entered into with the same Vendor on the same date, the Tube-Cote Acquisitions are required to be aggregated for the calculation of the relevant percentage ratios to determine the classification of the transactions. Upon aggregation, certain of the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions exceed 0.1% but less than 5%, the Tube-Cote Acquisitions will be exempted from independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Details of the Tube-Cote Acquisitions were set out in the Company's announcement dated 3 September 2019.

ii. Acquisition of 51% of equity interest in Shanghai Hilong Shine New Material Co., Ltd.

On 5 December 2019, Hilong Pipeline Engineering Technology Service Co., Ltd. ("**Hilong Pipeline**"), an indirect wholly-owned subsidiary of the Company, and Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) ("**Beijing Huashi Investments**") entered into an equity transfer agreement (the "**Equity Transfer Agreement**"), pursuant to which Hilong Pipeline has conditionally agreed to purchase, and Beijing Huashi Investments has conditionally agreed to dispose of 51% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd. ("**Hilong Shine New Material**"), at a consideration of RMB84,150,000, which will be settled by cash ("**Shine New Acquisition**"). Upon completion, Hilong Shine New Material will become a non-wholly owned subsidiary of the Company.

According to the Equity Transfer Agreement, the Vendor has irrevocably warranted to the Group that the net profit after tax (excluding any government subsidies and net profit from one off gain) as shown in the audited accounts of the Hilong Shine New Material for the year ending 31 December 2020 shall not be less than RMB7.55 million (the "**Guaranteed Profit**"). In the event that the actual net profit after tax (excluding any government subsidies and net profit from one-off gain) for the year ending 31 December 2020 (the "**Actual Profit**") does not meet the Guaranteed Profit, the Vendor shall be obliged to compensate the Group an amount representing (Guaranteed Profit – Actual Profit) × 21.9 × 51%. If Hilong Shine New Material records actual net loss, the compensation amount equals to RMB84,150,000. If the Shine New Acquisition is completed, the Company will disclose information whether the actual performance of Hilong Shine New Material meets the profit guarantee required by Rule 14A.63 of the Listing Rules in its announcement and next annual report.

The Board believes that the Shine New Acquisition is in the interests of the Company and its Shareholders as a whole. The Shine New Acquisition allows the Group to enhance the diversification of its business lines, expand revenue-generating channels and improve risk resistance capacity of its Company. In addition, the Shine New Acquisition also serves as an integral part of the business optimization and restructuring plan of the Group, which enables the Company to enhance the Shareholder's value and gain access to capital markets.

The Directors (other than members of the Independent Board Committee, who will give their opinion after having considered the recommendation from the Independent Financial Adviser) consider that the Equity Transfer Agreement was entered into in the ordinary and usual course of business of the Company and consider that the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable and that the Shine New Acquisition is in the interests of the Company and its Shareholders as a whole. The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wang Tao (王濤), Mr. Wong Man Chung Francis and Mr. Shi Zheyan, has been established to consider the terms of the Equity Transfer Agreement and the transactions contemplated thereunder, and to advise Shareholders who are independent of and have no interest in the transactions contemplated under the Equity Transfer Agreement (the "**Independent Shareholders**") as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

AJ Corporate Finance Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of the Shine New Acquisition.

Mr. ZHANG Jun, the controlling shareholder and a director of the Company, holds 95.65% of the equity interest in Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("**Huashi Hailong**"), which in turn holds 98.0% of the equity interest in Beijing Huashi Investments; meanwhile, Mr. ZHANG Jun also directly holds 1.0% of the equity interest in Beijing Huashi Investments. As such, Beijing Huashi Investments is an associate of Mr. ZHANG Jun and thus a connected person of the Company. The Shine New Acquisition therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Shine New Acquisition exceed 5%, the Shine New Acquisition is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios in respect of the Shine New Acquisition is greater than 5% but less than 25%, as calculated under Rule 14.07 of the Listing Rules, the Shine New Acquisition also constitutes a discloseable transaction for the Company and is subject to the notification and publication requirements under Chapter 14 of the Listing Rules.

Details of the Shine New Acquisition were set out in the announcement dated 5 December 2019 and the circular dated 6 December 2019 of the Company.

As at the date of this annual report, the completion of the Shine New Acquisition is subject to the satisfaction of the conditions set out in the Equity Transfer Agreement, which includes the Independent Shareholders' approval. A general meeting will be convened for the Independent Shareholders to consider if thought fit, to approve the Equity Transfer Agreement and the Shine New Acquisition. Therefore, the Shine New Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company, and are recommended to consult their professional advisers if they are in any doubt about their position and as to the action they should take.

Continuing Connected Transactions

On 28 December 2016, Beijing Huashi Investments, as landlord, entered into three tenancy agreements with Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) ("**Hilong Oil Service**"), as tenant.

Pursuant to tenancy agreement no. 1 ("**Tenancy Agreement No. 1**"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent the same premises under the 2014–2016 Tenancy Agreements with a total leasing area of 1,850.32 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 1 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB610,644.15, RMB627,528.32 and RMB644,412.49 respectively.

Pursuant to tenancy agreement no. 2 ("**Tenancy Agreement No. 2**"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent additional office premises within the same building with a total leasing area of 476.99 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 2 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB151,903.43, RMB156,255.96 and RMB160,608.50 respectively.

Pursuant to tenancy agreement no. 3 ("**Tenancy Agreement No. 3**", and together with Tenancy Agreement No. 1, Tenancy Agreement No. 2, the "**Tenancy Agreements**"), Beijing Huashi Investments agreed to lease and Hilong Oil Service agreed to rent additional office premises within the same building with a total leasing area of 126.12 square meters for a term of three years commencing from 1 January 2017. The monthly rental under Tenancy Agreement No. 3 for the years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB28,349.15, RMB29,499.99 and RMB30,650.84 respectively.

Beijing Huashi Investments as the landlord of Tenancy Agreement No. 2 and Tenancy Agreement No. 3, Hilong Oil Service as the original tenant of Tenancy Agreement No. 2 and Tenancy Agreement No. 3 and Hilong Energy Technology Co., Ltd. (海隆能源技術有限公司) ("**Hilong Energy Technology**"), a wholly-owned subsidiary of the Company, entered into two supplemental agreements dated 10 April 2017 (the "**Supplemental Agreements**"). Pursuant to the Supplemental Agreements, Hilong Oil Service agreed to transfer all its rights and obligations under Tenancy Agreement No. 2 and Tenancy Agreement No. 3 respectively to Hilong Energy Technology. All other terms and conditions under Tenancy Agreement No. 2 and Tenancy Agreement No. 3 remain the same. The Supplemental Agreements take retrospective effect as from 21 March 2017.

The monthly rental of each of the Tenancy Agreements was determined based on: (i) the historical rental amounts payable by Hilong Oil Service under the previous tenancy agreement for the two years ended 31 December 2015 and the nine months ended 30 September 2016; (ii) the prevailing market rents (which was obtainable as public information and after consulting the advice of several reputable local real estate agents for benchmarks of assessment of the monthly rental for the three years ending 31 December 2019); (iii) rental levels of similar properties in the vicinity of the leased premises (taking into account factors such as leased areas and floor levels); (iv) the conditions of the leased premises; (v) the location of the leased properties; and (vi) the availability of properties with similar sizes and in similar locations.

The annual caps for the leasing of the leased properties under the Tenancy Agreements for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019 are RMB9,490,762, RMB9,759,412 and RMB10,028,062 respectively. The annual caps were determined having taken into account the amounts payable or estimated figures to be paid by the Group under the Tenancy Agreements for each of the three years ending 31 December 2019. As the highest applicable percentage ratio for the transactions contemplated under the Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the lease of the premises under the Tenancy Agreements is exempt from the independent shareholders' approval requirement but is subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules.

On 1 August 2017, Beijing Huashi Investments, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 1**") with Hilong Energy Technology, as tenant, under which Beijing Huashi Investments agreed to lease to Hilong Energy Technology office premises in Beijing with a gross floor area of 276.74 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal.

On 1 August 2017, Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司) ("**Longshi Investment**"), as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 2**") with Hilong Group of Companies, a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Group of Companies office premises in Shanghai with a gross floor area of 1,008 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal. As at the date of this annual report, no rent has been incurred under the new Tenancy Agreement 2 as Hilong Group of Companies has not occupied the office premises.

On 1 August 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 3**"), a former subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Shine New Material office premises in Shanghai with a gross floor area of 411.12 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal. Hilong Shine New Material ceased to be the Company's subsidiary after the disposal of 100% of the equity interest in Hilong Shine New Material pursuant to the equity transfer agreement dated 25 September 2017. Therefore, as of the date of this annual report, this transaction no longer constitutes a continuing connected transaction of the Company.

On 1 August 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 4**") with Hilong Petroleum Offshore Engineering Limited (海隆石油海洋工程有限公司) ("**Hilong Petroleum Offshore Engineering**"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Petroleum Offshore Engineering the office premises in Shanghai with a gross floor area of 1,046.58 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal.

On 1 August, 2017, Longshi Investment, as landlord, entered into a tenancy agreement (the "**New Tenancy Agreement 5**") with Hilong Petroleum Offshore Engineering Services (Shanghai) Co., Ltd. (海隆石油海洋工程服務(上海)有限公司) ("**Hilong Petroleum Offshore Engineering Services**"), a subsidiary of the Company, as tenant, under which Longshi Investment agreed to lease to Hilong Petroleum Offshore Engineering Services office premises in Shanghai with a gross floor area of 603.16 square meters for a term commencing from 1 August 2017 to 31 July 2020, subject to renewal (the New Tenancy Agreement 1, the New Tenancy Agreement 2, the New Tenancy Agreement 3, the New Tenancy Agreement 4 and the New Tenancy Agreement 5 collectively, the "**2017 Tenancy Agreements**").

The monthly rental of each of the 2017 Tenancy Agreements was determined on arm's length basis and on normal commercial terms taking into account: (i) the prevailing market rents with respect to each of the premises (which is obtainable as public information and after consulting several reputable local real estate agents); (ii) the conditions of the premises; (iii) the location of the premises; (iv) rental levels of similar properties in the vicinity of the premises (taking into account factors such as leased areas, floor levels and the age of the building); and (v) the availability of properties with similar sizes and in similar locations.

In view of the entering into of the 2017 Tenancy Agreements, the Directors expected that the original annual caps for the three years ending 31 December 2017, 2018 and 2019 in the amount of RMB9,490,762, RMB9,759,412 and RMB10,028,062 respectively under the Tenancy Agreements would not be sufficient and therefore revised the annual caps for the 5 months from 1 August 2017 to 31 December 2017, the two years ending 31 December 2018 and 2019 and the 7 months from 1 January 2020 to 31 July 2020 to RMB12,020,307, RMB16,093,983, RMB16,719,642 and RMB3,921,099, respectively ("**2017 Revised Annual Caps**").

On 27 June 2018, Hilong Group of Companies, a wholly-owned subsidiary of the Company, as landlord, entered into a tenancy agreement (the "**2018 Tenancy Agreement**") with Hilong Shine New Material, a company owned by Mr. Zhang Jun as to 94.74%, as tenant in relation to the leasing of a factory premises for use as a manufacturing plant for a term commencing from 30 June 2018 to 31 July 2020, subject to renewal. The monthly rent for the 2018 Tenancy Agreement is RMB206,355.44 excluding management fees and utility fees. Accordingly, the maximum rent to be received by Hilong Group of Companies under the 2018 Tenancy Agreement is RMB5,176,412.

The monthly rental of the 2018 Tenancy Agreement was determined on arm's length basis and on normal commercial terms taking into account: (i) the prevailing market rents with respect to the premises to be leased (which is obtainable as public information and after consulting the advices of several reputable local real estate agents); (ii) the conditions of the premises to be leased; (iii) the location of the premises to be leased; (iv) rental levels of similar properties in the vicinity of the premises to be leased (taking into account factors such as leased areas and the age of the building); and (v) the availability of properties with similar sizes and in similar locations.

The terms of the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement were negotiated by the parties on an arm's length basis, taking into account prevailing market rentals, but in any event at leasing terms and rental rates no less favourable than those offered to the Group by independent third parties for the same or similar types of leased premises. Based on the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the continuing connected transactions contemplated under the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement are fair and reasonable, such continuing connected transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, and the entering into of such continuing connected transactions is in the interests of the Company and its shareholders as a whole. The Directors (including the independent non-executive Directors) are also of the view that the annual caps for the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement and the revised annual caps for the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement set out above are fair and reasonable and in the interests of the Company and its shareholders as a whole.

As at 31 December 2019, Mr. Zhang Jun (張軍), the controlling shareholder and a Director of the Company, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98.0% of the interest in Beijing Huashi Investments. Meanwhile, Mr. Zhang Jun also directly holds 1.0% of the interest in Beijing Huashi Investments. Further, Beijing Huashi Investments holds 50.0% of the interest in Longshi Investment. As at the same date, Mr. Zhang Jun also holds 94.74% of the equity interest in Hilong Shine New Material. As such, each of Beijing Huashi Investments, Longshi Investment and Hilong Shine New Material is an associate of Mr. Zhang Jun and thus a connected person of the Company under the Listing Rules. The leasing of the premises contemplated under each of the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement therefore constitute continuing connected transactions of the Company under Chapter 14A for the Listing Rules.

Given the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement are (i) similar in nature; (ii) entered into by the Group as tenants and counterparties who are associates of Mr. Zhang Jun as landlords; and (iii) transactions entered into within a 12-month period, the transactions contemplated under the Tenancy Agreements, 2017 New Tenancy Agreements and 2018 Tenancy Agreement would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

In view of the entering into of the 2018 Tenancy Agreement, the Directors expected that the 2017 Revised Annual Caps would not be sufficient and therefore revised the annual caps for each of the two years ending 31 December 2019 and the seven months from 1 January 2020 to 31 July 2020 to RMB17,349,076, RMB19,195,907, RMB5,366,152, respectively ("**2018 Revised Annual Caps**"). In arriving at the 2018 Revised Annual Caps, the Directors have taken into account the amounts payable by the Group and the amounts received by the Group under the 2017 Tenancy Agreements for each of the two years ending 31 December 2019 and the first seven months ending 31 July 2020. For more particulars in relation to the 2018 Tenancy Agreement and the transactions contemplated thereunder, please refer to the announcement of the Company dated 27 June 2018.

Given the highest applicable percentage ratio for the revised annual caps is more than 0.1% but less than 5%, the transactions under the Tenancy Agreements, 2017 Tenancy Agreements and 2018 Tenancy Agreement are exempt from the independent shareholders' approval requirement but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have conducted an annual review on the above continuing connected transactions and confirm that the above transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement (including the pricing policies and guidelines set out therein) governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The board confirms that the Company's auditor, PricewaterhouseCoopers, has issued an unqualified letter to the Board in respect of the continuing connected transactions of the Company disclosed above confirming the matters stated in Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange in accordance with Rule 14A.57 of the Listing Rules.

Continuing Connected Transaction Entered into after the Reporting Period

Since the Tenancy Agreements expired on 31 December 2019, on 1 January 2020, Beijing Huashi Investment as landlord entered into the renewed tenancy agreements ("**Renewed Tenancy Agreements**") with Hilong Oil Service as tenant. Pursuant to each of the Renewed Tenancy Agreements, Beijing Huashi Investment agreed to lease and Hilong Oil Service agreed to rent the same premises under the Tenancy Agreements (as supplemented by the Supplemental Agreements) for a term of one year commencing from 1 January 2020.

Mr. ZHANG Jun, the controlling shareholder and a director of the Company, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98.0% of the interest in Beijing Huashi Investment; meanwhile, Mr. ZHANG Jun also directly holds 1.0% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. ZHANG Jun and thus a connected person of the Company. The transactions contemplated under the Renewed Tenancy Agreements therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the Renewed Tenancy Agreements, the 2017 Tenancy Agreements and 2018 Tenancy Agreement are (i) similar in nature; (ii) entered into by the Group as tenants and counterparties who are associates of Mr. ZHANG Jun as landlords; and (iii) transactions entered into or completed within a 12-month period, the transactions contemplated under the Renewed Tenancy Agreements, the 2017 Tenancy Agreements and 2018 Tenancy Agreement would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

Furthermore, the 2018 Revised Annual Caps would not be sufficient and need to be revised. As the highest applicable percentage ratio in respect of the revised annual cap for the Renewed Tenancy Agreements, the 2017 Tenancy Agreements and 2018 Tenancy Agreement, on an aggregated basis, exceeds 0.1% but is less than 5%, the leasing of premises contemplated under the Renewed Tenancy Agreements and the revised annual cap for the Renewed Tenancy Agreements, the 2017 Tenancy Agreements and 2018 Tenancy Agreement will be exempted from the independent shareholders' approval requirement but is subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules.

For more particulars in relation to the Renewed Tenancy Agreements and the transactions contemplated thereunder, please refer to the announcement of the Company dated 1 January 2020.

REPURCHASE AND ISSUANCE OF DEBT SECURITIES

On 26 September 2019, the Company purchased its outstanding USD250,000,000 7.25% senior notes due 2020 previously issued on 22 June 2017 (the "**2017 Notes**") and the USD60,000,000 7.25% senior notes due 2020 to be consolidated and to form a single series with the 2017 Notes previously issued on 18 January 2018 (hereinafter collectively referred to as the "**2020 Notes**") at a purchase price of USD1,003.75 per USD1,000 principal amount by way of cash tender offer ("**Tender Offer**"). The aggregate purchase price paid by the Company in connection with the Tender Offer is USD144,886,000. As of 31 December 2019, after cancellation of the repurchased 2020 Notes, the aggregate principal amount of the 2020 Notes which remains outstanding is USD165,114,000.

Concurrent with the Tender Offer, the Company issued senior notes in a principal amount of USD200,000,000 at a discount of 99.480% (the "**2022 Notes**"). The 2022 Notes, guaranteed by certain subsidiaries of the Group, will bear interest from 26 September 2019 at 8.25% per annum payable semi-annually in arrears on 26 March and 26 September of each year, beginning from 26 March 2020. The net proceeds from the 2022 Notes will be used to refinance the Group's existing offshore indebtedness, including the 2020 Notes repurchased by way of the Tender Offer, and for working capital and general corporate purposes. The 2022 Notes were listed on the Stock Exchange of Hong Kong Limited on 27 September 2019. As at 31 December 2019, the net proceeds from the 2022 Notes had been fully utilized for the purpose as mentioned above.

For more details on the Tender Offer and the issuance of the 2022 Notes, please refer to the announcements of the Company dated 20 September 2019, 26 September 2019 and 27 September 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

Save as disclosed in this annual report, the Company did not have any acquisition or disposal of subsidiaries, associates, joint ventures or significant investment during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed in this annual report, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Executive Directors and Non-executive Directors has confirmed that he/she is neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with the Group's business.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

Each of Mr. Zhang Jun and Hilong Group Limited, being controlling shareholders (the "**Controlling Shareholders**") of the Company, has entered into a Non-competition Deed (the "**Deed**"), details as described in the prospectus of the Company date 11 March 2011, with the Company on 3 March 2011.

The Controlling Shareholders have confirmed their compliance with the non-competition undertakings under the Deed throughout the year of 2019. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders and are satisfied that the Controlling Shareholders have complied with the undertakings.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2019.

SUBSEQUENT EVENTS

On 29 March 2020, the Company passed a resolution of the Board of Directors and proposed to pay a final dividend of HK2.0 cents (equivalent to approximately RMB0.018) per Share to the Shareholders of the Company. Details refer to Note 26 to the consolidated financial statements in this annual report.

References are made to the announcement dated 5 December 2019 and the circular dated 6 December 2019 of the Company. In December 2019, the Group signed an agreement with Beijing Huashi Investments to purchase 51% equity interest of Hilong Shine New Material, a wholly-owned subsidiary of Beijing Huashi Investments, at a cash consideration of RMB84,150,000. As of the date of this annual report, the transaction is still in process and the completion of the transaction is subject to the approval of the Independent Shareholders of the Company at the general meeting which will be further announced by the Company. Details of the transaction were set out in relevant disclosures under the section headed "Connected Transactions" on pages 61 to 62 of this annual report.

Since early 2020, the outbreak of COVID-19 in Mainland China and overseas countries has affected business and economic activities across all industries, including the companies in oil and gas industry. The recent decrease of the global demands together with the failure of OPEC and Russia to reach an agreement on production cuts caused the sharp decline of crude oil price, and the Group expects that it may lead to the reduce or curtailment of the expenditure by oil and gas companies in relation to the exploration, drilling and production activities. The Group will pay close attention to this fluid situation and take proactive measures to mitigate the potential negative impact on the Group's business performance in 2020.

AUDITOR

The financial statements for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers, certified public accountants.

On behalf of the Board
Zhang Jun
Chairman

Hong Kong, 29 March 2020

羅兵咸永道

TO THE SHAREHOLDERS OF HILONG HOLDING LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hilong Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 167, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter of trade receivables impairment assessment is identified in our audit and summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Trade receivables impairment assessment	
Refer to Note 4.1(b) (Financial risk factors – Credit risk), Note 5 (Critical accounting estimates and judgements) and Note 14(b) (Trade and other receivables) to the consolidated financial statements. The Group has significant businesses in a number of overseas countries and has many overseas customers, with certain businesses of the Group are exposed to global fluctuation of oil and gas prices. Provisions are made for expected credit losses at the initial stage of transactions. Management's significant judgement is required in assessing the expected credit losses. As at 31 December 2019, the gross carrying amount of trade receivables of the Group was approximately RMB2,192 million, whereby gross trade receivables past due more than one year as at 31 December 2019 amounted to approximately RMB512 million, and provision for expected credit losses of RMB105 million is recorded.	Our procedures in relation to impairment of provision for trade receivables included but not limited to below: • understanding and testing controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balance and determination of impairment provision; • confirming on a sample basis significant balances with customers; • assessing the appropriateness of the credit loss provisioning methodology throughout the Group; • obtaining management's assessment of the expected collectability (both amount and timing) of individually significant balances, especially those that were aged more than one year, and corroborating management's assessment against available evidences, including interviewing with sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to the existence of disputes with customers;

KEY AUDIT MATTERS (continued)

Key Audit Matter (continued)	How our audit addressed the Key Audit Matter (continued)
Management estimated the level of expected credit losses, by assessing future cash flows of trade receivables including a probability determined by evaluating a range of possible outcomes based on twelve months rolling historical credit loss experience by customer ageing, tenure and applying to the receivables held at year end. The impact of forward looking economic factors both current and future are also considered in assessing the likelihood of recovery from customers and expected credit losses.	• testing on a sample basis the reliability of the ageing report and accuracy of management's ageing analysis of receivable balances; • challenging the information used to determine the expected credit losses by considering cash collection performance against historical trends, the level of credit loss charges over time and the impact of economic factors on probability of default. We found management's assessment of the impairment provision of trade receivables is supported by the evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2020

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	7	**3,172,363**	3,261,017
Right-of-use assets	3,8	**120,268**	–
Lease prepayments	8	**–**	83,110
Intangible assets	9	**238,382**	212,627
Investments accounted for using equity method	10	**44,526**	39,230
Deferred income tax assets	12	**203,890**	211,348
Other long-term assets	6(d),11	**87,925**	57,244
		3,867,354	3,864,576
Current assets			
Inventories	13	**860,109**	889,138
Contract assets	6(d)	**185,777**	–
Financial assets at fair value through other comprehensive income	4,14(a)	**170,645**	–
Trade and other receivables	14(b)	**2,341,098**	2,084,897
Prepayment	15	**182,331**	176,959
Current income tax recoverable		**26,170**	37,910
Restricted cash	14(c)	**124,329**	184,479
Cash and cash equivalents	14(c)	**783,178**	661,738
		4,673,637	4,035,121
Total assets		**8,540,991**	7,899,697
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	17	**141,976**	141,976
Other reserves	18	**1,283,815**	1,139,627
Currency translation differences		**(39,312)**	(92,848)
Retained earnings		**2,276,462**	2,120,614
		3,662,941	3,309,369
Non-controlling interests		**43,522**	212,641
Total equity		**3,706,463**	3,522,010

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*14(d)*	**1,531,246**	2,494,673
Lease liabilities	*8*	**20,314**	–
Deferred income tax liabilities	*12*	**45,019**	48,185
Deferred revenue	*16*	**51,862**	38,311
		1,648,441	2,581,169
Current liabilities			
Trade and other payables	*14(e)*	**1,251,439**	1,099,189
Contract liabilities	*6(d)*	**137,417**	71,465
Current income tax liabilities		**64,978**	41,117
Borrowings	*14(d)*	**1,712,111**	575,942
Lease liabilities	*8*	**20,083**	–
Deferred revenue	*16*	**59**	8,805
		3,186,087	1,796,518
Total liabilities		**4,834,528**	4,377,687
Total equity and liabilities		**8,540,991**	7,899,697

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 73 to 167 were approved by the Board of Directors on 29 March 2020 and were signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	6	**3,649,906**	3,222,416
Cost of sales	19	**(2,488,725)**	(2,201,734)
Gross profit		**1,161,181**	1,020,682
Selling and marketing expenses	19	**(154,926)**	(124,227)
Administrative expenses	19	**(486,766)**	(405,810)
Net impairment losses on financial assets	4,14(b)	**(42,266)**	(12,418)
Other gains – net	22	**104,915**	56,881
Operating profit		**582,138**	535,108
Finance income	23	**3,523**	9,105
Finance costs	23	**(278,493)**	(318,791)
Finance costs – net		**(274,970)**	(309,686)
Share of profit of investments accounted for using equity method	10	**5,236**	7,121
Profit before income tax		**312,404**	232,543
Income tax expense	24	**(124,183)**	(82,012)
Profit for the year		**188,221**	150,531
Profit attributable to:			
Equity owners of the Company		**176,818**	148,741
Non-controlling interests		**11,403**	1,790
		188,221	150,531
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	25	**0.1042**	0.0877
Diluted earnings per share	25	**0.1042**	0.0877

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Profit for the year	**188,221**	150,531
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Changes in the fair value of financial assets at fair value through other comprehensive income	**(3,081)**	–
Currency translation differences	**53,536**	21,801
Other comprehensive income for the year, net of tax	**50,455**	21,801
Total comprehensive income for the year	**238,676**	172,332
Attributable to:		
Equity owners of the Company	**227,302**	170,542
Non-controlling interests	**11,374**	1,790
	238,676	172,332

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Capital and reserves attributable to equity owners						
	Note	Ordinary shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Cumulative Translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2018		141,976	1,136,669	1,988,499	(114,649)	3,152,495	232,267	3,384,762
Profit for the year		–	–	148,741	–	148,741	1,790	150,531
Other comprehensive gains		–	–	–	21,801	21,801	–	21,801
Total comprehensive income for the year		–	–	148,741	21,801	170,542	1,790	172,332
Appropriation to statutory reserve	*18(a)*	–	1,892	(1,892)	–	–	–	–
Transactions with owners								
2013 Share Option Scheme	*18(b)*	–	1,066	–	–	1,066	–	1,066
Transactions with non-controlling interests	*22*	–	–	–	–	–	(16,042)	(16,042)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(5,374)	(5,374)
Dividends in respect of 2017	*26*	–	–	(14,734)	–	(14,734)	–	(14,734)
As at 31 December 2018		141,976	1,139,627	2,120,614	(92,848)	3,309,369	212,641	3,522,010
As at 1 January 2019		**141,976**	**1,139,627**	**2,120,614**	**(92,848)**	**3,309,369**	**212,641**	**3,522,010**
Profit for the year		**–**	**–**	**176,818**	**–**	**176,818**	**11,403**	**188,221**
Other comprehensive (losses)/gains		**–**	**(3,081)**	**–**	**53,536**	**50,455**	**–**	**50,455**
Total comprehensive income for the year		**–**	**(3,081)**	**176,818**	**53,536**	**227,273**	**11,403**	**238,676**
Appropriation to statutory reserve	*18(a)*	**–**	**5,646**	**(5,646)**	**–**	**–**	**–**	**–**
Transactions with owners								
2013 Share Option Scheme	*18(b)*	**–**	**93**	**–**	**–**	**93**	**–**	**93**
Transactions with non-controlling interests	*18(c)*	**–**	**141,433**	**–**	**–**	**141,433**	**(171,557)**	**(30,124)**
Disposal of a subsidiary	*22*	**–**	**–**	**–**	**–**	**–**	**(1,960)**	**(1,960)**
Non-controlling interests arising from incorporation of a subsidiary		**–**	**–**	**–**	**–**	**–**	**695**	**695**
Other additions		**–**	**97**	**–**	**–**	**97**	**–**	**97**
Dividends paid to non-controlling interests of subsidiaries		**–**	**–**	**–**	**–**	**–**	**(7,700)**	**(7,700)**
Dividends in respect of 2018	*26*	**–**	**–**	**(15,324)**	**–**	**(15,324)**	**–**	**(15,324)**
As at 31 December 2019		**141,976**	**1,283,815**	**2,276,462**	**(39,312)**	**3,662,941**	**43,522**	**3,706,463**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	*27(a)*	**489,737**	585,408
Income tax paid		**(73,571)**	(116,272)
Net cash generated from operating activities		**416,166**	469,136
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment	*27(b)*	**21,158**	11,790
Dividends received		**3,344**	6,413
Purchases of property, plant and equipment		**(218,904)**	(489,515)
Purchases of intangible assets	*9*	**(22,163)**	(33,043)
Net proceeds from disposal of subsidiaries of the Group	*22*	**1,694**	7,909
Net cash used in investing activities		**(214,871)**	(496,446)
Cash flows (used in)/from financing activities			
Proceeds from borrowings		**949,953**	1,026,982
Repayments of borrowings		**(797,432)**	(527,571)
Interest paid		**(233,966)**	(205,028)
Principal element of lease payments	*3,8*	**(23,867)**	–
Acquisition of non-controlling interests	*14(e)*	**(784)**	–
Investment of non-controlling interests		**695**	–
Net cash inflow/(outflow) arising from security deposit for bank borrowings	*14(d)*	**36,460**	(3,830)
Net cash inflow arising from financial instruments	*4*	**–**	25,515
Dividends paid	*26*	**(15,324)**	(19,481)
Net cash (used in)/generated from financing activities		**(84,265)**	296,587
Net increase in cash and cash equivalents		**117,030**	269,277
Exchange gains on cash and cash equivalents		**4,410**	3,447
Cash and cash equivalents at beginning of the year		**661,738**	389,014
Cash and cash equivalents at end of the year		**783,178**	661,738

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION OF THE GROUP

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

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

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

The consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 29 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

As at 31 December 2019, the Group has net positive working capital of RMB1,488 million. Nevertheless, the Group's total borrowings due within one year were approximately RMB1,712 million whereas the cash and cash equivalents were approximately RMB783 million. The borrowings were mainly resulted from Senior Notes (RMB1,149 million) which will be due for payment by June 2020. Management of the Company has been actively seeking for external financing resources to ensure the Group being able to satisfy the liquidity needs and improve its financial position.

Management has prepared the Group's cash flow forecast which covers a period of at least 12 months from 31 December 2019. The cash flow forecast has taken into accounts the anticipated cash flows generated from the Group's operations, the successful renewal or extension of existing borrowings and entering into new financing arrangement to replace the Senior Notes due for payment by June 2020. The directors, after making due enquiries and considering the basis of management's projections described above, believe that the Group will have sufficient funds to finance its operations and to meet its financial obligations when they fall due within the next 12 months from 31 December 2019. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2019 on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Interpretation 23 Uncertainty over Income Tax Treatments
- Annual Improvements to HKFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19

The Group changes its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules prospectively from 1 January 2019, as permitted under the specific transition provisions in the HKFRS 16. This is disclosed in Note 3. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

- Amendments to HKFRS 3 'Business Combinations', effective for the accounting period beginning on or after 1 January 2020.
- Amendments to HKAS 1 and HKAS 8 'Definition of Material', effective for the accounting period beginning on or after 1 January 2020.
- Amendments to conceptual Framework of IASB, effective for the accounting period beginning on or after 1 January 2020.
- HKAS 39, HKFRS 7 and Amendments to HKFRS 9 'Interest Rate Benchmark Reform', effective for the accounting period beginning on or after 1 January 2020.
- HKFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2021.
- Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', the effective date of this amendment has been deferred by IASB.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The acquisition method is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire, the equity interests issued by the Group and the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specific permitted by applicable HKFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Investments in associates and joint ventures are accounted for using the equity method of accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control or joint control, generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.5 below), after initially being recognised at cost.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "Share of profit of investments accounted for using equity method" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting (see Note 2.5 below), after initially being recognised at cost in the consolidated balance sheet.

Profits and losses resulting from upstream and downstream transactions between the Group and its joint ventures are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Gains or losses on dilution of equity interest in joint ventures are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

The Group's investments in associates and joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in an equity-accounted investment equals or exceeds its interests in the entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management that makes strategic decisions.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the Company's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings, restricted cash and cash and cash equivalents are presented in the consolidated income statement within "Finance income or costs". All other foreign currency translation gains and losses are presented in the consolidated income statement within "Other gains – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gains or losses. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperchecked-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint venture that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated currency translation difference is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Freehold land	Nil
Buildings and facilities	5 to 40 years
Machinery and equipment	3 to 25 years
Office and electronic equipment	3 to 10 years
Vehicles	3 to 10 years

The estimated useful lives of leasehold improvements were lower of estimated useful lives of 5 to 10 years or lease term.

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gain and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains – net" in the consolidated income statement.

2.9 Lease prepayments

Lease prepayments represent upfront payments made for the land use rights. It is stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of impairment losses (Note 2.11), if any. On adoption of HKFRS 16 from 1 January 2019, lease prepayments were reclassified as Right-of-use assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(b) Computer software

Acquired computer software license are capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over their estimated useful lives of 2 to 10 years.

(c) Proprietary technologies

Proprietary technologies are initially recorded at cost and are amortized on the straight-line basis over their estimated useful lives of 10 years.

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Investments and other financial assets (continued)

(c) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains – net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains – net" and impairment expenses are presented as separate line item in the consolidated income statement. As at 31 December 2019, the Group's bills receivable was recognized as FVOCI due to the due purpose for both collection of contractual cash flows and for selling.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other gains – net" in the period in which it arises.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 4.1(b) Credit risk for further details.

2.13 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Contract assets

Contract assets are the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer, and they should be presented separately. If the Group transfers control of goods or services to a customer before the customer pays consideration, the Group should record either contract assets or receivables depending on the nature of the Group's right to consideration for its performance.

The Group incurs costs to obtain and fulfill a contract; however, the Group has elected to recognize all incremental costs to obtain a contract as an expense when incurred if the amortization period is one year or less. The Group has elected to treat mobilisation cost occurred related to oilfield service contract as a fulfillment cost in conjunction with the recording of revenue for the oilfield service.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 14(b) for further information about the Group's accounting for trade receivables and see Note 2.12 and Note 4.1 for a description of the Group's impairment policies.

2.16 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalents.

2.17 Restricted cash

Restricted cash represents guarantee deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

2.18 Ordinary shares

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Contract liabilities

Contract liabilities are recognised if the Group receives consideration (or if it has the unconditional right to receive consideration) in advance of performance. Contract liabilities are expected to be settled within 12 months after the end of the period are presented as current liabilities in the balance sheet, otherwise are presented as other non-current liabilities.

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill; the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Employee benefits

(a) Pension obligations

The People's Republic of China ("**PRC**") employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group. The non-PRC employees are covered by other defined-contribution pension plans sponsored by the government of their respective country of residence.

(b) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by these housing funds.

2.25 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Share-based payments (continued)

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.26 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.27 Revenue recognition

(i) Revenue from sales of products

The Group manufactures and sells a range of products, including the production of oilfield equipment and coating materials for anti-corrosive and anti-friction purpose. Sales are recognised when the control of the products has transferred, being when the products are delivered to and inspected by customers according to terms of each contract and there is no unfulfilled obligation that could affect the customers to acceptance of the products.

(ii) Revenue from provision of pipeline coating services, oilfield services and offshore engineering services

The Group provides pipeline coating services to domestic and overseas customers. The revenue is recognised overtime upon result is achieved as the Group's performance creates or enhances an asset that the customer controls.

The Group provides a range of oilfield services, including the provision of well drilling services and integrated comprehensive services to oil and gas producers. The Group charges the oil and gas producers at a fixed day rate which will be specific in each contract. Oilfield services revenue is recognised upon completion of each day when services are provided.

The offshore engineering division provides full-scale engineering design, simulation analysis, technical support and a variety of engineering construction services to oil and gas industry. Revenue from providing such services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual cost spent relative to the total expected cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Revenue recognition (continued)

(iii) Overseas shipping services

The Group arranges overseas shipping services for the customer and revenue is recognised over time and based on the actual shipping service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual passages of time (days) relative to the total expected shipping days.

(iv) Rental income

Rental income from drill pipe leasing is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(v) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2.28 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI. Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

Dividend income is recognised when the right to receive payment is established.

2.29 Operating leases (as a lessee)

As explained in Note 3, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 3.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 28). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a Right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Operating leases (as a lessee) (continued)

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use assets in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the Right-of-use assets.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Operating leases (as a lessee) (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the Right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the Right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.31 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated income statement on a straight – line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.32 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated income statement as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 23 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.33 Research and development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other research and development expenditure that do not meet these criteria are recognised as an expense as incurred. Research and development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements and discloses the new accounting policies that have been applied from 1 January 2019 below.

As indicated in Note 2.29 above, the Group has adopted HKFRS 16 prospectively from 1 January 2019, but has not restated comparatives for the reporting period of 2018, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'Operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding of initial direct costs for the measurement of the Right-of-use assets at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

3 CHANGES IN ACCOUNTING POLICIES (continued)

(ii) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	80,381
Discounted using the lessee's incremental borrowing rate of at the date of initial application	68,253
Less: short-term leases recognised on a straight-line basis as expense	(7,946)
Lease liabilities recognised as at 1 January 2019	**60,307**
Of which are:	
Current lease liabilities	20,556
Non-current lease liabilities	39,751
	60,307

(iii) Measurement of Right-of-use assets

The Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the Right-of-use assets at the date of initial application.

The recognised Right-of-use assets relate to the following types of assets:

	As at	
	31 December 2019 RMB'000	1 January 2019 RMB'000
Land	**91,008**	93,531
Buildings	**10,923**	14,848
Machinery and equipment	**18,337**	35,038
Total Right-of-use assets	**120,268**	143,417

With effect from 1 January 2019, land use rights recorded under lease prepayments amounted to RMB83,110,000 were reclassified to Right-of-use assets with the adoption of HKFRS 16.

(iv) Adjustments recognised in the consolidated balance sheet on 1 January 2019

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

Right-of-use assets – increased by RMB143,417,000
Lease prepayments – decreased by RMB83,110,000
Lease liabilities – increased by RMB60,307,000.

There was no impact on retained earnings on 1 January 2019.

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("**USD**"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations.

As at 31 December 2019, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB32,720,000 higher/lower as a result of foreign exchange gains/losses (2018: RMB37,376,000 higher/lower as a result of foreign exchange gains/losses) on translation of USD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables and borrowings.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents and restricted cash, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of cash and cash equivalents and restricted cash are not expected to change significantly.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 14(d).

As at 31 December 2019, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB188,000 (2018: RMB351,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, contractual cash flows of debt instruments carried at amortised cost, at FVOCI, deposits with banks and financial institutions and contract assets, as well as credit exposures to customers, including outstanding receivables. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Risk management

All cash and cash equivalents and restricted cash were deposited in major financial institutions, which the directors of the Company believe are of high credit quality.

The table below sets out the bank deposit balances including restricted cash with the major counterparties as at 31 December 2019 and 2018:

Counterparty	Rating	As at 31 December 2019 RMB'000	 2018 RMB'000
China Construction Bank*	A	**146,369**	158,221
China Minsheng Bank*	BBB–	**144,962**	9,096
HSBC*	AA–	**107,406**	159,262
Bank of China*	A	**48,315**	107,511
Emirates Islamic Bank**	A3	**48,189**	21,847
Shanghai Pudong Development Bank*	BBB	**47,460**	19,565
Habib Bank Limited**	B3	**46,939**	24,661
China Everbright Bank**	BAA2	**41,637**	34,797
Bank of India	NA	**30,430**	11
Zenith Bank*	B	**27,754**	40,637
Bank of Ningbo Co., Ltd.**	BAA2	**20,378**	59,308
Wells Fargo Bank*	A–	**20,327**	4,646
Citi Bank*	A+	**18,718**	3,384
Bank of Jiangsu	NA	**18,535**	12,075
China Merchants Bank Co., Ltd.*	BBB+	**17,439**	7,170
Qatar National Bank*	AA–	**17,279**	–
Shanghai Rural Commercial Bank*	BBB+	**14,128**	168
J.P Morgan Chase Bank*	AAA	**10,038**	2,014
Banco Pichincha	NA	**6,049**	40,341
Societe Generale*	A	**4,138**	12,503
Faysal Bank	NA	**2,104**	10,906
China CITIC Bank Co., Ltd.*	BBB+	**1,371**	32,182
Bank of Shanghai Co., Ltd.**	BAA2	**865**	35,143

* The source of credit rating is from S&P.
** The source of credit rating is from Moody's.

The directors of the Company do not expect any losses from non-performance by these counterparties.

(ii) Security

For some trade receivables, the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets

The Group has four types of financial assets that are subject to the expected credit loss model:

- Trade receivables and bills receivable for sales of products and from the provision of services
- Contract assets relating to offshore engineering services and certain inspection services
- Bills receivable carried at FVOCI, and
- Other financial assets carried at amortised cost

Trade receivables, bills receivable and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, bills receivable and contract assets.

To measure the expected credit losses, trade receivables, bills receivable and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the "Gross Domestic Product" ("**GDP**") and "Rule of Law" ("**RoL**") of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Trade receivables, bills receivable and contract assets (continued)

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for all trade receivables, bills receivable and contract assets:

	Current	Past due within one year	Past due more than one year	Past due more than two years	Past due more than three years	Total
31 December 2019						
Average expected credit loss rate	0.29%	1.45%	4.49%	23.66%	61.87%	4.45%
Gross carrying amount						
– Trade receivables	958,549	721,238	341,481	75,186	95,191	2,191,645
– Contract assets	186,313	–	–	–	–	186,313
	1,144,862	721,238	341,481	75,186	95,191	2,377,958
Loss allowance						
– Trade receivables	(2,755)	(10,494)	(15,343)	(17,787)	(58,890)	(105,269)
– Contract assets	(536)	–	–	–	–	(536)
Loss allowance	(3,291)	(10,494)	(15,343)	(17,787)	(58,890)	(105,805)
31 December 2018						
Average expected credit loss rate	1.01%	1.96%	7.82%	23.33%	75.10%	7.75%
Gross carrying amount						
– Trade receivables	982,050	659,789	112,735	63,181	145,142	1,962,897
– Bills receivable	48,913	–	–	–	–	48,913
	1,030,963	659,789	112,735	63,181	145,142	2,011,810
Loss allowance						
– Trade receivables	(9,908)	(12,911)	(8,816)	(14,740)	(109,006)	(155,381)
– Bills receivable	(494)	–	–	–	–	(494)
	(10,402)	(12,911)	(8,816)	(14,740)	(109,006)	(155,875)
Reversal of loss allowance						
– Contract assets	897	–	–	–	–	897
Loss allowance	(9,505)	(12,911)	(8,816)	(14,740)	(109,006)	(154,978)

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Trade receivables, bills receivable and contract assets (continued)

The closing loss allowances for trade receivables, bills receivable and contract assets as at 31 December 2019 and 2018 reconcile to the opening loss allowances as follows:

	Contract assets RMB'000	Trade receivables and bills receivable RMB'000
As at 1 January 2018	(897)	(142,560)
Increase in financial assets loss allowance in profit of loss during the year	–	(12,418)
Unused amount reversed	897	–
As at 31 December 2018	–	(154,978)
Increase in financial assets loss allowance in profit of loss during the year	(536)	(41,730)
Write-off of loss allowance	–	91,439
As at 31 December 2019	(536)	(105,269)

Trade receivables, bills receivable and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than five years past due.

Impairment losses on trade receivables, bills receivable and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Bills receivable at FVOCI

The Group assesses on a forward-looking basis the expected credit losses associated with its bills receivable at FVOCI, which are bank acceptance bills and commercial acceptance bills arising from the course of ordinary businesses. The impairment methodology applied depends on whether there has been a significant increase in credit risk. As at 31 December 2019, the identified impairment loss was immaterial.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include receivables due from related parties and key management personnel and other receivables.

As at 31 December 2019 and 2018, the internal credit rating of other financial assets at amortised cost were performing as all of these financial assets are considered by management to have low credit risk, and thus the impairment provision recognised during the period was limited to 12 months expected losses and are not material.

(c) Liquidity risk

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2019					
Non-derivatives					
Borrowings and interest payables	**1,887,309**	**166,496**	**1,624,770**	**5,971**	**3,684,546**
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	**1,076,480**	**–**	**–**	**–**	**1,076,480**
Lease liabilities	**21,594**	**7,975**	**4,811**	**12,398**	**46,778**
	2,985,383	**174,471**	**1,629,581**	**18,369**	**4,807,804**
As at 31 December 2018					
Non-derivatives					
Borrowings and interest payables	773,073	2,464,101	141,824	19,163	3,398,161
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	953,837	–	–	–	953,837
	1,726,910	2,464,101	141,824	19,163	4,351,998

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on 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 financial statements plus net debt. The Group aims to maintain the gearing ratio between 30% and 40%.

The gearing ratios as at 31 December 2019 and 2018 are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total borrowings *(Note 14(d))*	**3,243,357**	3,070,615
Add: Lease liabilities *(Note 8)*	**40,397**	–
Less: Cash and cash equivalents *(Note 14(c))*	**(783,178)**	(661,738)
Restricted cash *(Note 14(c))*	**(124,329)**	(184,479)
Net debt	**2,376,247**	2,224,398
Total equity	**3,706,463**	3,522,010
Total capital	**6,082,710**	5,746,408
Gearing ratio	**39.07%**	38.71%

The slight increase in gearing ratio as at 31 December 2019 was mainly due to the increase in equity. The Group expects the gearing ratio would be between 30% and 40% in future years.

The gearing ratio increased from 38.67% to 39.07% following the adoption of HKFRS 16 Leases. Both net debt and gross assets increased following the recognition of Right-of-use assets and lease liabilities on 1 January 2019. See Note 3 for further information.

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table sets out the Group's financial assets and liabilities that were measured at fair value as at 31 December 2019 (31 December 2018: Nil):

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2019				
Financial Assets				
Financial instruments-current				
Financial assets at FVOCI	–	–	170,645	170,645

There were no transfers among levels during the years ended 31 December 2019 and 2018.

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2019 and 2018:

	Financial instruments 2019 RMB'000	 2018 RMB'000
As at 1 January	**–**	24,040
Additions	**173,726**	–
Deductions	**–**	(25,515)
Losses recognised in other comprehensive income	**(3,081)**	–
Gains recognised in profit or loss	**–**	1,475
As at 31 December	**170,645**	–
Total gains for the year included in profit or loss under "Finance cost – net"	**–**	1,475
Total gains for the year included in other comprehensive income under "Changes in the fair value of financial assets at FVOCI"	**(3,081)**	–

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

Valuation inputs and relationships to fair value

Financial instruments	Fair value hierarchy	Valuation Techniques and key inputs	Significant Unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at FVOCI				
– Bills receivable	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flow; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flow, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value

Sensitivity analyses

The sensitivity analysis below has been determined based on the change of rate of return in isolation used in the expected future cash flow that reflect the expected risk level of the financial assets at the end of the reporting period. If the respective rate of return of the respective financial assets had been 10% higher/lower, the total comprehensive income (net of tax), for the year ended 31 December 2019 would have increased/decreased by approximately RMB232,000 as a result of the changes in fair value of the financial assets.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Expected credit loss for receivables

The impairment provision for trade receivables, bills receivable and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 2.12 and Note 4.1(b)(iii). Changes in these assumptions and estimates could materially affect the result of the assessment and to may be necessary to make additional impairment charge to the consolidated income statement.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Current and deferred income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Estimated write-downs of inventories

The Group writes down inventories to net realizable value based on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realized. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

(e) Impairment assessment of goodwill

The Group tested annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.11. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations require the use of estimates. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount even if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

(f) Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

6 SEGMENT INFORMATION

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

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

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

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

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

The Group's operations are mainly 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 purposes;
- Oilfield services provision, including the provision of well drilling services, integrated comprehensive services, OCTG trading and related services to oil and gas producers; and
- Offshore engineering services provision, including the provision of offshore engineering services and offshore design services.

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2019 and 2018 are set out as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Oilfield equipment manufacturing and services	**1,652,331**	1,428,731
Line pipe technology and services	**360,781**	326,440
Oilfield services	**1,283,325**	1,134,413
Offshore engineering services	**353,469**	332,832
	3,649,906	3,222,416

6 SEGMENT INFORMATION (continued)

(b) Segment information

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

	Year ended 31 December 2019				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,720,485	452,420	1,283,668	353,469	3,810,042
Inter-segment sales	(68,154)	(91,639)	(343)	–	(160,136)
Revenue from external customers	1,652,331	360,781	1,283,325	353,469	3,649,906
Revenue from contracts with customers:					
– at a point in time	1,224,555	50,740	134,585	–	1,409,880
– over time	315,163	310,041	1,148,740	353,469	2,127,413
	1,539,718	360,781	1,283,325	353,469	3,537,293
Revenue from other sources:					
– rental income	112,613	–	–	–	112,613
	1,652,331	360,781	1,283,325	353,469	3,649,906
Results					
Segment gross profit	571,469	105,913	456,835	26,964	1,161,181
Segment profit	339,952	26,325	304,372	(23,554)	647,095
Corporate overheads					(64,957)
Operating profit					582,138
Finance income					3,523
Finance costs					(278,493)
Share of profit of investments accounted for using equity method					5,236
Profit before income tax					312,404
Other information					
Depreciation of property, plant and equipment	115,185	21,325	151,688	65,907	354,105
Depreciation of Right-of-use assets	3,563	3,036	15,498	2,366	24,463
Amortisation of intangible assets	2,428	294	229	539	3,490
Capital expenditure	137,224	18,207	92,749	80	248,260

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 31 December 2019				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	3,241,216	965,075	2,805,171	1,485,003	8,496,465
Investments accounted for using equity method					44,526
Total assets					8,540,991
Total liabilities *(a)*	3,807,471	318,946	630,573	77,538	4,834,528

(a) As at 31 December 2019, the Senior Notes of USD365,114,000 (31 December 2018: USD310,000,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2018 is as follows:

	Year ended 31 December 2018				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	1,464,394	389,375	1,135,483	332,832	3,322,084
Inter-segment sales	(35,663)	(62,935)	(1,070)	–	(99,668)
Revenue from external customers	1,428,731	326,440	1,134,413	332,832	3,222,416
Timing of revenue recognition					
At a point in time	1,135,258	71,942	216,604	–	1,423,804
Over time	293,473	254,498	917,809	332,832	1,798,612
	1,428,731	326,440	1,134,413	332,832	3,222,416
Results					
Segment gross profit	478,288	110,752	416,723	14,919	1,020,682
Segment profit	280,531	46,236	278,834	5,926	611,527
Corporate overheads					(76,419)
Operating profit					535,108
Finance income					9,105
Finance costs					(318,791)
Share of profit of investments accounted for using equity method					7,121
Profit before income tax					232,543
Other information					
Depreciation of property, plant and equipment	82,156	21,695	104,163	63,997	272,011
Amortisation of lease prepayments	1,196	904	–	–	2,100
Amortisation of intangible assets	2,570	225	156	977	3,928
Capital expenditure	125,007	21,650	442,244	–	588,901

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 31 December 2018				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	2,944,139	736,757	2,754,301	1,425,270	7,860,467
Investments accounted for using equity method					39,230
Total assets					7,899,697
Total liabilities	3,461,992	271,262	620,220	24,213	4,377,687

(c) Geographical segments

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Russia, Central Asia and East Europe	**917,580**	918,137
The PRC	**900,942**	873,600
South Asia and Southeast Asia	**705,022**	615,405
North and South America	**482,752**	399,308
Middle East	**383,972**	133,218
Africa	**258,617**	279,867
Others	**1,021**	2,881
	3,649,906	3,222,416

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
The PRC	**1,752,126**	1,797,890
Middle East	**485,503**	514,985
North and South America	**454,449**	412,852
Russia, Central Asia and East Europe	**318,484**	250,747
South Asia and Southeast Asia	**307,567**	339,551
Africa	**212,884**	240,729
	3,531,013	3,556,754

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
North and South America	**127,099**	38,946
The PRC	**46,516**	10,620
Russia, Central Asia and East Europe	**45,543**	50,452
South Asia and Southeast Asia	**12,368**	85,248
Middle East	**9,364**	399,820
Africa	**7,370**	3,815
	248,260	588,901

6 SEGMENT INFORMATION (continued)

(d) Assets and liabilities related to contracts with customers

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

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
Current contract assets relating to offshore engineering and inspection services	*(i)*	**186,313**	–
Loss allowance	*4.1(b)*	**(536)**	–
Total contract assets		**185,777**	–
Non-current asset recognised for costs incurred to fulfil a contract	*(iii)*	**68,126**	52,825
Contract liabilities – Sales and service contracts	*(i),(ii)*	**137,417**	71,465

(i) Significant changes in contract assets and liabilities

Contract assets are recorded for the provision of offshore engineering services and inspection services and have increased as the Group has provided more services ahead of the agreed payment schedules for these services contracts. The Group also recognised a loss allowance for contract assets as at 31 December 2019, see Note 4.1(b) for more information.

Contract liabilities are recorded for the payments received in advance of the performance under the contracts which are mainly from sales of goods and provision of services. The increase in contract liabilities as at 31 December 2019 was mainly due to the increase in the advances from customers.

6 SEGMENT INFORMATION (continued)

(d) Assets and liabilities related to contracts with customers (continued)

(ii) Revenue recognised in relation to contract liabilities

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period		
– Sales of goods	**68,372**	58,538
– Provision of service	**3,093**	1,344
	71,465	59,882

Contract liability that is non-current, with amount of RMB37,635,000 as at 31 December 2019 (31 December 2018: RMB23,776,000), is included in "Deferred revenue — Mobilisation fees" (Note 16).

(iii) Assets recognised from costs to fulfil a contract

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

	2019 RMB'000	2018 RMB'000
Asset recognised from costs incurred to fulfil oilfield service contracts as at 31 December	**68,126**	52,825
Amortisation recognised as cost of providing services during the period	**18,486**	10,041

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

7 PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2018							
Cost	572,360	3,260,690	41,574	26,884	10,433	140,394	4,052,335
Accumulated depreciation	(152,212)	(926,296)	(29,665)	(20,991)	(8,016)	–	(1,137,180)
Net book amount	420,148	2,334,394	11,909	5,893	2,417	140,394	2,915,155
Year ended 31 December 2018							
Opening net book amount	420,148	2,334,394	11,909	5,893	2,417	140,394	2,915,155
Transferred from construction in progress	22	50,989	71	204	–	(51,286)	–
Additions	12,280	420,609	2,744	2,297	–	117,928	555,858
Disposals	(3,582)	(32,093)	(89)	(110)	–	–	(35,874)
Depreciation *(Note 19)*	(20,442)	(243,068)	(5,770)	(1,492)	(1,239)	–	(272,011)
Currency translation differences	(428)	100,324	(59)	(20)	20	(1,948)	97,889
Closing net book amount	407,998	2,631,155	8,806	6,772	1,198	205,088	3,261,017
As at 31 December 2018							
Cost	579,588	3,756,619	43,887	28,346	7,726	205,088	4,621,254
Accumulated depreciation	(171,590)	(1,125,464)	(35,081)	(21,574)	(6,528)	–	(1,360,237)
Net book amount	407,998	2,631,155	8,806	6,772	1,198	205,088	3,261,017
Year ended 31 December 2019							
Opening net book amount	**407,998**	**2,631,155**	**8,806**	**6,772**	**1,198**	**205,088**	**3,261,017**
Transferred from construction in progress	**5,675**	**123,106**	**1,242**	**407**	**–**	**(130,430)**	**–**
Additions	**27,794**	**143,403**	**3,228**	**1,350**	**–**	**45,433**	**221,208**
Disposals	**(45)**	**(12,287)**	**(162)**	**(14)**	**–**	**–**	**(12,508)**
Disposal of a subsidiary	**–**	**(3,029)**	**(26)**	**(269)**	**–**	**–**	**(3,324)**
Depreciation *(Note 19)*	**(24,342)**	**(323,368)**	**(3,882)**	**(1,608)**	**(905)**	**–**	**(354,105)**
Currency translation differences	**8,864**	**50,029**	**2,058**	**56**	**3**	**(935)**	**60,075**
Closing net book amount	**425,944**	**2,609,009**	**11,264**	**6,694**	**296**	**119,156**	**3,172,363**
As at 31 December 2019							
Cost	**567,892**	**3,959,405**	**50,335**	**28,754**	**7,731**	**119,156**	**4,733,273**
Accumulated depreciation	**(141,948)**	**(1,350,396)**	**(39,071)**	**(22,060)**	**(7,435)**	**–**	**(1,560,910)**
Net book amount	**425,944**	**2,609,009**	**11,264**	**6,694**	**296**	**119,156**	**3,172,363**

7 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of sales	**330,963**	253,807
Administrative expenses	**22,151**	17,316
Selling and marketing expenses	**991**	888
	354,105	272,011

8 LEASE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Lease prepayments		
Opening net book value	**83,110**	86,440
Change in accounting policy – HKFRS 16 *(Note 3)*	**(83,110)**	–
Disposals	**–**	(1,230)
Amortisation charges *(Note 19)*	**–**	(2,100)
Closing net book value	**–**	83,110

8 LEASE (continued)

	As at	
	31 December 2019 RMB'000	1 January 2019 RMB'000
Right-of-use assets		
Land	**91,008**	93,531
Buildings	**10,923**	14,848
Machinery and equipment	**18,337**	35,038
	120,268	143,417
Lease liabilities		
Current	**20,083**	20,556
Non-current	**20,314**	39,751
	40,397	60,307

(i) The movements of the Right-of-use assets for the year ended 31 December 2019 were as follows:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Opening net book value	**143,417**	–
Additions	**4,889**	–
Disposals	**(4,242)**	–
Amortisation charge *(Note 19)*	**(24,463)**	–
Currency translation differences	**667**	–
Closing net book value	**120,268**	–

(ii) Expenses have been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Depreciation charge of Right-of-use assets *(Note 19)*		
Land	**2,694**	–
Buildings	**6,506**	–
Machinery and equipment	**15,263**	–
	24,463	–
Interest expense *(Note 23)*	**2,611**	–
Expense relating to short-term leases (included in cost of sales, administrative expenses and selling and marketing expenses) *(Note 19)*	**50,997**	61,622

The total cash outflow for leases in 2019 was RMB74,864,000, out of which RMB23,867,000 was relating to financing activities.

9 INTANGIBLE ASSETS

	Goodwill (a) RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
As at 1 January 2018				
Cost	158,703	24,129	12,165	194,997
Accumulated amortisation	–	(2,478)	(7,016)	(9,494)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	158,703	19,554	5,149	183,406
Year ended 31 December 2018				
Opening net book amount	158,703	19,554	5,149	183,406
Additions	–	32,702	341	33,043
Amortisation charge *(Note 19)*	–	(2,070)	(1,858)	(3,928)
Currency translation differences	(327)	396	37	106
Closing net book amount	158,376	50,582	3,669	212,627
As at 31 December 2018				
Cost	158,376	56,767	11,886	227,029
Accumulated amortisation	–	(4,088)	(8,217)	(12,305)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	158,376	50,582	3,669	212,627
Year ended 31 December 2019				
Opening net book amount	158,376	50,582	3,669	212,627
Additions	–	21,366	797	22,163
Amortisation charge *(Note 19)*	–	(2,295)	(1,195)	(3,490)
Currency translation differences	6,639	435	8	7,082
Closing net book amount	165,015	70,088	3,279	238,382
As at 31 December 2019				
Cost	165,015	78,568	12,695	256,278
Accumulated amortisation	–	(6,383)	(9,416)	(15,799)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	165,015	70,088	3,279	238,382

9 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill

Goodwill is allocated to the Group's CGUs identified according to business segments.

A segment level summary of goodwill is presented below:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Oilfield equipment manufacturing and services	**165,015**	158,376

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expects cash flow beyond the five-year period will be similar to that of the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using 3% growth rates.

The key assumptions used for value-in-use calculations in the oilfield equipment manufacturing and services segment are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Gross margin	**36%**	33%
Discount rate	**16%**	16%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2019 (2018: nil).

(b) The amortisation of intangible assets has been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Administrative expenses	**3,170**	3,167
Cost of sales	**320**	761
	3,490	3,928

10 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Associates *(a)*	**44,526**	39,230
Joint venture *(b)*	**–**	–
	44,526	39,230

The amounts recognised in the consolidated income statement are as follows:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Associates	**5,236**	7,296
Joint venture	**–**	(175)
	5,236	7,121

(a) Investments in associates

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Beginning of year	**39,230**	31,032
Share of results of associates	**5,236**	7,296
Other additions	**97**	–
Elimination of unrealised profit	**4,096**	4,368
Dividends declared	**(4,133)**	(3,466)
End of year	**44,526**	39,230

10 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

(a) Investments in associates (continued)

The particulars of the associates of the Group, all of which are unlisted, are set out as follows:

Company name	Country/place of incorporation and operation and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principal activities
			2019	2018	
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	Shandong, the PRC, 12 February 2007	RMB20,000,000	**30%**	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	Liaoning, the PRC, 22 November 2010	RMB12,850,000	**35.02%**	30%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	Shaanxi, the PRC, 20 November 2004	RMB18,000,000	**22.95%**	22.95%	Coating service provision

The Group's interests in its associates and certain of its key financial information attributable to the Group are as follows:

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenue RMB'000	Profit RMB'000
As at and year ended 31 December 2019	**78,017**	**33,491**	**44,526**	**38,745**	**5,236**
As at and year ended 31 December 2018	60,037	20,807	39,230	45,397	7,296

There were no contingent liabilities relating to the Group's interests in its associates.

(b) Investment in a joint venture

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Beginning of year	**–**	24,597
Disposal of a joint venture *(Note 22)*	**–**	(24,422)
Share of results of a joint venture	**–**	(175)
End of year	**–**	–

10 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

(b) Investment in a joint venture (continued)

The Group's interest in a joint venture and certain of its financial information attributable to the Group is as follows:

Company name	Country/place of incorporation and operation and date of incorporation	Paid-up capital	Attributable equity interest to the Group As at 31 December		Principal activities
			2019	2018	
Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd.	Shaanxi, the PRC, 24 July 2013	RMB50,000,000	**0%**	0%	Coating service provision

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Revenue RMB'000	Loss RMB'000
As at and year ended 31 December 2018	–	–	–	–	(175)

On 27 December 2018, Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. was liquidated, see Note 22(b) for more details.

11 OTHER LONG-TERM ASSETS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Contract mobilisation cost to fulfill the contract *(Note 6(d))*	**68,126**	52,825
Fulfilment cost for oilfield service contracts	**10,217**	–
Others	**9,582**	4,419
	87,925	57,244

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**36,615**	54,809
– to be recovered after more than 12 months	**167,275**	156,539
	203,890	211,348
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(45,019)**	(48,185)

Movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets	Tax losses and tax credits carried forward RMB'000	Impairment provision on assets RMB'000	Accruals RMB'000	Unrealized profit (a) RMB'000	Allowance related to capitalized expenditure RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2018	91,975	28,669	2,420	78,717	5,395	1,543	208,719
Credit/(charged) to the consolidated income statement *(Note 24)*	28,295	932	641	(7,828)	–	(56)	21,984
As at 31 December 2018	120,270	29,601	3,061	70,889	5,395	1,487	230,703
Credit/(charged) to the consolidated income statement *(Note 24)*	3,017	(12,170)	40	33	–	(40)	(9,120)
As at 31 December 2019	123,287	17,431	3,101	70,922	5,395	1,447	221,583

(a) Deferred income tax assets of unrealized profit are mainly attributable to the unrealized profit on intra-group transfer of property, plant and equipment and inventories.

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. Part of the accumulated tax losses recognised as deferred tax assets amounted to RMB10,886,000, RMB64,443,000, RMB107,259,000, RMB98,863,000, RMB31,355,000, RMB0, RMB37,741,000 will expire in years ending 31 December of 2020, 2021, 2022, 2023, 2024, 2028, 2036 respectively. The remaining portion of the accumulated tax losses amounted to RMB224,247,000 can be carried forward indefinitely.

The Group did not recognise cumulative deferred income tax assets of RMB248,882,000 as at 31 December 2019 (31 December 2018: RMB194,071,000) in respect of the accumulated tax losses of certain subsidiaries, out of which RMB74,220,000 will expire in five years and RMB174,662,000 can be carried forward indefinitely.

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries RMB'000	Gains on remeasuring existing equity interests in certain associate and joint ventures on acquisition RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Accelerated tax depreciation expenses RMB'000	Lease RMB'000	Total RMB'000
At 1 January 2018	(36,095)	(3,381)	(4,156)	(6,894)	–	(50,526)
(Charged)/credit to the consolidated income statement *(Note 24)*	(1,219)	–	20	(15,706)	–	(16,905)
Currency translation differences	–	–	699	(808)	–	(109)
At 31 December 2018	(37,314)	(3,381)	(3,437)	(23,408)	–	(67,540)
(Charged)/credit to the consolidated income statement *(Note 24)*	(133)	–	363	3,841	(60)	4,011
Currency translation differences	–	–	(328)	1,145	–	817
At 31 December 2019	**(37,447)**	**(3,381)**	**(3,402)**	**(18,422)**	**(60)**	**(62,712)**

13 INVENTORIES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials	**572,743**	521,916
Work in progress	**86,235**	77,506
Finished goods	**189,463**	278,087
Packing materials	**827**	722
Low value consumables	**10,841**	10,907
	860,109	889,138

The cost of inventories recognised as cost of sales amounted to approximately RMB1,339,966,000 for the year ended 31 December 2019 (2018: RMB1,289,662,000) (Note 19).

As at 31 December 2018, inventory provision relating to raw materials and finished goods amounted to RMB4,794,000, during the year ended 31 December 2019, the Group has written off inventory provision write-down brought forward from prior years amounted to RMB4,794,000.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		As at 31 December	
		2019	2018
		RMB'000	RMB'000
Financial assets			
Financial assets at FVOCI	*(a)*	**170,645**	–
Financial assets at amortised cost			
– Trade and other receivables	*(b)*	**2,341,098**	2,084,897
– Cash and cash equivalents	*(c)*	**783,178**	661,738
– Restricted cash	*(c)*	**124,329**	184,479
		3,419,250	2,931,114
Financial liabilities			
Borrowings	*(d)*	**3,243,357**	3,070,615
Trade and other payables	*(e)*	**1,251,439**	1,099,189
		4,494,796	4,169,804

(a) Financial assets at FVOCI

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bills receivable	**170,645**	–

Bills receivable with a fair value of RMB170,645,000 were recognised as FVOCI as at 31 December 2019, because the Group held the bills receivable both for collection of contractual cash flows and for selling in 2019, where its cash flows represent solely payments of principal and interest. Fair value losses of RMB3,081,000 were recognised in FVOCI reserve for the year ended 31 December 2019.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Trade and other receivables

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Bills receivable *(i)*	**–**	48,913
Trade receivables *(i)*	**2,191,645**	1,962,897
– Due from related parties *(Note 29(c))*	**6,140**	4,039
– Due from third parties	**2,185,505**	1,958,858
Less: provision for loss allowance of receivables *(ii)*	**(105,269)**	(154,978)
Trade receivables – net	**2,086,376**	1,807,919
Other receivables *(iii)*	**251,976**	226,029
Dividend receivables *(Note 29(c))*	**2,746**	2,036
Trade and other receivables – net	**2,341,098**	2,084,897

As at 31 December 2019 and 2018, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB12,813,000 (31 December 2018: Nil) of the Group were used to secure borrowings from a financial institution as at 31 December 2019 (Notes 14(d)(i)).

As at 31 December 2019 and 2018, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
– USD	**1,307,947**	1,102,254
– RMB	**718,400**	750,770
– RUB	**231,650**	166,476
– AED	**39,212**	23,561
– NGN	**20,848**	10,783
– PEN	**8,852**	40
– CAD	**6,347**	10,755
– MYR	**2,353**	70
– ALL	**2,150**	–
– PKR	**1,391**	3,845
– KZT	**627**	12,869
– Other currencies	**1,321**	3,474
	2,341,098	2,084,897

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

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Trade and other receivables (continued)

(i) The ageing of bills receivable is within 180 days, which is within the credit terms granted to customers.

The ageing analysis of trade receivables based on invoice date, before provision for loss allowance, as at 31 December 2019 and 2018 was as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Trade receivables, gross		
– Within 90 days	**910,130**	1,015,844
– Over 90 days and within 180 days	**388,624**	216,567
– Over 180 days and within 360 days	**351,649**	377,399
– Over 360 days and within 720 days	**367,799**	144,381
– Over 720 days	**173,443**	208,706
	2,191,645	1,962,897

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

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
As at 1 January *(Note 4.1)*	**(154,978)**	(143,457)
Provision for receivables loss allowance	**(41,730)**	(12,418)
Reversal of loss allowance	**–**	897
Write-off of loss allowance	**91,439**	–
As at 31 December	**(105,269)**	(154,978)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Due from related parties *(Note 29(c))*	**148,537**	133,866
Deposits	**44,816**	42,990
Staff advances	**23,018**	29,546
Value added tax refund	**978**	1,167
Others	**34,627**	18,460
	251,976	226,029

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Cash and cash equivalents and restricted cash

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Cash at bank and in hand *(i)*	**907,507**	846,217
Less: Restricted cash *(ii)*	**(124,329)**	(184,479)
Cash and cash equivalents	**783,178**	661,738

(i) All cash at bank excluding the restricted cash are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash.

(ii) Restricted cash represents guarantee deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements (Note 14(d)).

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Cash at bank and in hand are denominated in:		
– RMB	**456,451**	490,370
– USD	**320,322**	252,241
– RUB	**54,653**	40,237
– PKR	**39,429**	13,386
– CAD	**11,099**	10,955
– AED	**8,563**	4,309
– NGN	**7,923**	25,757
– PEN	**3,280**	143
– HKD	**1,684**	2,253
– KZT	**904**	4,411
– Other currencies	**3,199**	2,155
	907,507	846,217
Restricted cash is denominated in:		
– RMB	**97,596**	139,963
– USD	**21,457**	39,837
– AED	**4,170**	3,269
– RUB	**1,000**	1,352
– OMR	**106**	58
	124,329	184,479

The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current		
Bank borrowings – secured *(i)*	**211,517**	480,527
Bank borrowings – unsecured	**294**	16,780
Senior Notes – unsecured *(ii)*	**1,356,369**	2,106,656
Less: Current portion of non-current borrowings – secured *(i)*	**(36,934)**	(109,290)
	1,531,246	2,494,673
Current		
Bank borrowings – secured *(i)*	**107,300**	97,185
Bank borrowings – unsecured	**418,661**	369,467
Senior Notes – unsecured *(ii)*	**1,149,216**	–
Current portion of non-current borrowings – secured *(i)*	**36,934**	109,290
	1,712,111	575,942
	3,243,357	3,070,615

(i) Bank borrowings – secured

The bank borrowings of RMB67,822,000 (31 December 2018: RMB217,185,160) were secured by bank deposits of RMB13,130,000 (Note 14(c)) (31 December 2018: RMB49,590,000).

The borrowings of RMB15,240,000 (31 December 2018: Nil) from financial institution were secured by trade receivables of RMB12,813,000 of the Group as at 31 December 2019.

The bank borrowings of RMB24,238,000 (31 December 2018: Nil) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 31 December 2019.

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 31 December 2019, USD33,545,000 were drawn down, out of which USD2,520,000 had been repaid during 2019, the remaining principals will be fully repayable from 2020 to 2025.

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounting to RMB400,000,000. These loan principals were secured by the Controlling Shareholder and his spouse. As at 31 December 2019, RMB385,000,000 were drawn down, out of which RMB77,000,000 had been repaid during 2017 and 2018, the remaining principals had been fully repaid during 2019.

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings (continued)

(ii) Senior Notes

In June 2017, the Company issued Senior Notes amounting to USD250,000,000 at a discounted price 99.339% (the "**Original Notes**"). The Senior Notes, guaranteed by certain subsidiaries of the Group, will bear interest from 22 June 2017 at 7.25% per annum payable semi-annually in arrears on 22 June and 22 December of each year, beginning from 22 December 2017. The Senior Notes were listed on the Stock Exchange of Hong Kong Limited on 23 June 2017.

On 18 January 2018, the Company issued Senior Notes amounting to USD60,000,000 in addition to the Original Notes (the "**Additional Notes**") (hereinafter collectively referred to as the "**2020 Notes**"). The Additional Notes, guaranteed by certain subsidiaries of the Group, bear interest at 7.25% per annum payable semi-annually.

In September 2019, the Company issued Senior Notes amounting to USD200,000,000 at a discounted price 99.480% (the "**2022 Notes**"), out of which USD144,886,000 has been used to settle partial of the 2020 Notes. The 2022 Notes, guaranteed by certain subsidiaries of the Group, will bear interest from 26 September 2019 at 8.25% per annum payable semi-annually in arrears on 26 March and 26 September of each year, beginning from 26 March 2020. The Senior Notes were listed on the Stock Exchange of Hong Kong Limited on 27 September 2019.

(iii) Borrowings – currencies

The Group's bank borrowings are denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Bank borrowings:		
– USD	**2,808,087**	2,351,634
– HKD	**–**	67,467
– EUR	**46,893**	47,084
– RMB	**388,377**	604,430
	3,243,357	3,070,615

(iv) Borrowings – interest rates and maturity dates

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity date whichever is earlier are as follows:

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
As at 31 December 2019	**1,613,066**	**140,745**	**1,489,546**	**3,243,357**
As at 31 December 2018	300,269	271,768	2,498,578	3,070,615

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings (continued)

(iv) Borrowings – interest rates and maturity dates (continued)

The maturity of borrowings is as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
On demand or within 1 year	**1,712,111**	575,942
Between 1 and 2 years	**40,622**	2,353,164
Between 2 and 5 years	**1,485,275**	123,272
Over 5 years	**5,349**	18,237
	3,243,357	3,070,615

The weighted average effective interest rates at each balance sheet date were as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Borrowings – current		
– RMB	**5.31%**	4.81%
– HKD	**3.11%**	3.11%
– EUR	**1.38%**	1.38%
– USD	**8.39%**	3.44%
Borrowings – non-current		
– RMB	**–**	6.24%
– USD	**7.75%**	8.10%

Borrowings – Fair values

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Material differences are identified only for the following borrowings:

	As at 31 December 2019	
	Carrying amount **RMB'000**	**Fair value** RMB'000
2022 Senior Notes	**1,356,369**	1,410,964

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings (continued)

(iv) Borrowings – interest rates and maturity dates (continued)

Borrowings – Fair values (continued)

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
USD facilities	**121,345**	164,374
RMB facilities	**364,115**	192,307
	485,460	356,681

(e) Trade and other payables

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Bills payable	**233,171**	206,909
Trade payables:	**658,402**	674,093
– Due to third parties	**643,219**	658,109
– Due to related parties *(Note 29(c))*	**15,183**	15,984
Other payables:	**155,294**	53,244
– Due to related parties *(Note 29(c)) (i)*	**59,719**	19,031
– Due to third parties *(Note 18(c))(ii)*	**95,575**	34,213
Staff salaries and welfare payables	**42,314**	44,168
Interest payables	**33,364**	7,026
Accrued taxes other than income tax	**99,281**	94,158
Dividends payable	**11,809**	4,109
Other liabilities	**17,804**	15,482
	1,251,439	1,099,189

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(e) Trade and other payables (continued)

(i) As at 31 December 2019 and 2018, there was an unpaid cash consideration amounted to RMB938,000 in relation to the acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd, which was completed on 8 May 2014 (Note 29(c)).

(ii) As at 31 December 2019 and 2018, there was an unpaid cash consideration due to Kamelon LLC amounted to USD200,000 in relation to the acquisition of Russia Coating Business which was completed on 1 December 2014.

As at 31 December 2019 and 2018, all trade and other payables of the Group were non-interest bearing, and their fair values, excluding the interest payables, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

As at 31 December 2019 and 2018, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
– RMB	**883,741**	945,746
– USD	**209,421**	46,522
– RUB	**60,294**	19,366
– NGN	**35,659**	3,921
– AED	**18,499**	22,950
– PKR	**18,396**	13,921
– ETB	**13,059**	12,872
– EUR	**4,862**	961
– CAD	**1,810**	2,983
– OMR	**1,661**	24,522
– UAH	**1,160**	–
– MYR	**952**	443
– ALL	**883**	2,497
– KZT	**730**	2,485
– Other currencies	**312**	–
	1,251,439	1,099,189

14 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(e) Trade and other payables (continued)

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables, gross		
– Within 90 days	**470,851**	458,889
– Over 90 days and within 180 days	**148,170**	170,886
– Over 180 days and within 360 days	**29,941**	28,656
– Over 360 days and within 720 days	**7,270**	12,812
– Over 720 days	**2,170**	2,850
	658,402	674,093

15 PREPAYMENT

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Prepayment	**182,331**	176,959

16 DEFERRED REVENUE

Deferred revenue represents mobilisation fees and government grants relating to certain research projects and production lines. Mobilisation fees mainly represent the mobilisation cost compensated by corresponding clients which should be deferred and recognised in the consolidated income statement over the service period afterwards. Government grants relating to research projects are recognised in the consolidated income statement over the financial period necessary to match them with the costs that they are intended to compensate; government grants relating to production lines are deferred and recognised in the consolidated income statement on a straight-line basis over the expected useful lives of the related production lines.

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current		
– Mobilisation fees	**37,635**	23,776
– Government grants	**14,227**	14,535
	51,862	38,311
Current		
– Government grants	**59**	114
– Mobilisation fees	**–**	8,691
	59	8,805
	51,921	47,116

17 ORDINARY SHARES

	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary shares (In RMB)
As at 31 December 2018 and 31 December 2019	1,696,438,600	169,643,860	141,975,506

18 OTHER RESERVES

	Statutory reserve RMB'000	Merger reserve RMB'000	Share options reserve RMB'000	Share premium RMB'000	Financial assets at FVOCI RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Total RMB'000
As at 1 January 2018	101,472	(141,929)	47,729	1,172,248	–	702	(43,553)	1,136,669
Appropriation to statutory reserve *(a)*	1,892	–	–	–	–	–	–	1,892
2013 Share Option Scheme *(b)*	–	–	1,066	–	–	–	–	1,066
As at 31 December 2018	103,364	(141,929)	48,795	1,172,248	–	702	(43,553)	1,139,627
As at 1 January 2019	103,364	(141,929)	48,795	1,172,248	–	702	(43,553)	1,139,627
Appropriation to statutory reserve *(a)*	5,646	–	–	–	–	–	–	5,646
Consideration paid to the then equity owners for acquisition of subsidiaries *(c)*	–	141,433	–	–	–	–	–	141,433
Other addition	–	–	–	97	–	–	–	97
Other comprehensive income	–	–	–	–	(3,081)	–	–	(3,081)
2013 Share Option Scheme *(b)*	–	–	93	–	–	–	–	93
Forfeit of share options *(b)*	–	–	(1,735)	1,735	–	–	–	–
As at 31 December 2019	109,010	(496)	47,153	1,174,080	(3,081)	702	(43,553)	1,283,815

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the articles of association of the companies incorporated in the PRC within the Group (the "**PRC Subsidiaries**"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

For the year ended 31 December 2019, RMB5,646,000 (2018: RMB1,892,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

18 OTHER RESERVES (continued)

(b) Share options reserve

On 28 February 2011, the Company ratified and adopted an equity-settled "Pre-IPO share option plan" to recognise the contributions made by the directors and the employees of the Group.

At the annual general meeting of the shareholders on 10 May 2013, the shareholders adopted a share option scheme (the "**2013 Share Option Scheme**") for options to subscribe for not more than 5% ordinary shares of the then total outstanding shares of the Company. The purpose of the 2013 Share Option Scheme is to provide incentive or reward to certain directors or employees of the Group for their contribution to the Group. On 5 February 2014, options for a total of 19,980,000 ordinary shares of the Company under the 2013 Share Option Scheme were granted to certain employees of the Group.

The fair value of the contributions received in exchange for the grant of the options is recognised as an expense on a straight-line basis over vesting period of each tranche. These share options are measured at fair value at grant day. The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(i) Pre-IPO Share Option Plan

The movements in the number of share options outstanding and their related exercise prices under the pre-IPO share option plan are as follows:

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2019	2018
At 1 January	2.60	**29,564,300**	29,564,300
Forfeited	2.60	**(64,000)**	–
At 31 December	2.60	**29,500,300**	29,564,300

The share options outstanding (expiry date: 31 December 2020) as at 31 December 2019 and 2018 have the following vesting dates and exercise prices:

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
Vesting date		**2019**	2018
21 April 2012	2.60	**2,176,900**	2,176,900
21 April 2013	2.60	**6,410,800**	6,426,800
21 April 2014	2.60	**6,957,000**	6,973,000
21 April 2015	2.60	**6,969,800**	6,985,800
21 April 2016	2.60	**6,985,800**	7,001,800
		29,500,300	29,564,300

All of the options were exercisable as at 31 December 2019 and 2018. No options were exercised in 2019 and 2018, and 64,000 options were forfeited during 2019 (2018: Nil).

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(i) Pre-IPO Share Option Plan (continued)

The fair value of the pre-IPO share options at the grant date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of pre-IPO share options	32,804

The significant inputs into the model were as follows:

	Granting date In HKD	Granting date Equivalent to RMB
Spot share price	2.60	2.11
Exercise price	2.60	2.11
Expected volatility	55.98%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.80%	N/A
Dividend yield	2.00%	N/A
Early Exercise Level	1.30	N/A

(ii) 2013 Share Option Scheme

The movements in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme are as follows:

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2019	2018
Beginning of the period	5.93	**17,221,200**	17,221,200
Forfeited	5.93	**(1,163,100)**	–
End of the period	5.93	**16,058,100**	17,221,200

The share options outstanding (expiry date: 4 February 2024) as at 31 December 2019 and 2018 have the following vesting dates and exercise prices:

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2019	2018
5 February 2015	5.93	**3,211,620**	3,444,240
5 February 2016	5.93	**3,211,620**	3,444,240
5 February 2017	5.93	**3,211,620**	3,444,240
5 February 2018	5.93	**3,211,620**	3,444,240
5 February 2019	5.93	**3,211,620**	3,444,240
		16,058,100	17,221,200

18 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

All of the options were exercisable as at 31 December 2019 (2018: 13,776,960 options), and 1,163,100 options were forfeited during 2019 (2018: Nil).

The fair value of the 2013 Share Option Scheme at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of share options granted under 2013 Share Option Scheme	29,009

The significant inputs into the model were as follows:

	Granting date	
	In HKD	Equivalent to RMB
Spot share price	5.64	4.43
Exercise price	5.93	4.66
Expected volatility	55.79%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.20%	N/A
Dividend yield	2.68%	N/A
Early Exercise Level	1.58	N/A

Share option expenses have been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Selling and marketing expenses	**76**	873
Administrative expenses	**17**	190
Cost of sales	**–**	3
	93	1,066

(c) Consideration paid to the then equity owners for acquisition of subsidiaries

Consideration paid to the then equity owners for acquisition of a subsidiary in 2019 represented:

(a) The acquisition by Hilong Group of Companies Ltd. of 49% non-controlling interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. at a consideration of RMB25,140,000, the balance of which has not been settled as at 31 December 2019.

(b) The acquisition by Hilong Technology Limited of 8.04% non-controlling interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. at a consideration of RMB4,984,000, out of which RMB784,000 was paid and the remaining balance of RMB4,200,000 was settled in January 2020.

19 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress *(Note 13)*	**79,895**	65,880
Raw materials and consumables used *(Note 13)*	**1,260,071**	1,223,782
Employee benefit expenses *(Note 20)*	**690,489**	565,034
Depreciation *(Note 7)*	**354,105**	272,011
Transportation expenses	**136,879**	136,229
Utilities and electricity	**152,313**	122,110
Short-term operating lease payments	**50,997**	61,622
Travelling and communication expenses	**47,429**	49,967
Consulting expenses	**69,529**	53,390
Entertainment expenses	**40,631**	36,057
Marketing and promotion expenses	**28,456**	31,911
Research and development expenses	**44,373**	29,229
Taxes and levies	**11,978**	16,908
Sales commission	**22,021**	14,319
Amortisation of long term prepaid expenses	**29,566**	12,917
Subcontract cost	**59,944**	12,368
Bank charges	**7,787**	7,550
Auditor's remuneration	**5,944**	5,405
– Audit services	**3,700**	3,700
– Non-audit services	**2,244**	1,705
Amortisation of intangible assets *(Note 9)*	**3,490**	3,928
Amortisation of right-of-use assets *(Note 8)*	**24,463**	–
Amortisation of lease prepayments	**–**	2,100
Miscellaneous	**10,057**	9,054
Total cost of sales, selling and marketing expenses and administrative expenses	**3,130,417**	2,731,771

20 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Wages and salaries	**563,555**	456,075
Social security costs	**126,841**	107,893
Share options granted to directors and employees *(Note 18(b)(i), (ii))*	**93**	1,066
	690,489	565,034

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 include two (2018: two) directors whose emoluments are reflected in the analysis presented below. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries	**2,310**	2,340
Discretionary bonus	**1,523**	1,463
Social security costs	**323**	288
Share options *(Note 18(b))*	**–**	39
	4,156	4,130

The emoluments fell within the following bands:

	Year ended 31 December	
	2019	2018
Emolument bands:		
Nil to HKD1,000,000	**–**	–
HKD1,000,001 to HKD1,500,000	**1**	–
HKD1,500,001 to HKD2,000,000	**2**	3
HKD2,000,001 to HKD2,500,000	**–**	–
HKD2,500,001 to HKD3,000,000	**–**	–
	3	3

No directors or these highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

21 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of every director and chief executive is set out below:

For the year ended 31 December 2019:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking									
	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Social Security RMB'000	Allowance RMB'000	Share options RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Year ended 31 December 2019										
Zhang Jun (張軍)	–	749	741	68	–	–	–	–	–	1,558
Wang Tao (汪濤)	–	730	647	121	–	–	–	–	–	1,498
Zhang Shuman (張姝嫚)	213	1,018	–	53	–	–	–	–	–	1,284
Yuan Pengbin (袁鵬斌)	213	–	–	–	–	–	–	–	–	213
Yang Qingli (楊慶理)	213	–	–	–	–	–	–	–	–	213
Wang Tao (王濤)	213	–	–	–	–	–	–	–	–	213
Wong Man Chung Francis (黃文宗)	213	–	–	–	–	–	–	–	–	213
Shi Zheyan (施哲彥)	213	–	–	–	–	–	–	–	–	213
Liu Haisheng (劉海勝)*	106	–	–	–	–	–	–	–	–	106
Li Huaiqi (李懷奇)**	106	–	–	–	–	–	–	–	–	106
	1,490	2,497	1,388	242	–	–	–	–	–	5,617

* Retired on 21 June 2019
** Retired on 21 June 2019

21 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and chief executives' emoluments (continued)

For the year ended 31 December 2018:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking									
	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Social Security RMB'000	Allowance RMB'000	Share options RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Year ended 31 December 2018										
Zhang Jun (張軍)	–	706	741	65	–	–	–	–	–	1,512
Wang Tao (汪濤)	–	779	597	99	–	–	–	–	–	1,475
Zhang Shuman (張姝縵)	205	1,003	–	54	–	–	–	–	–	1,262
Yuan Pengbin (袁鵬斌)	–	610	–	78	–	–	–	–	–	688
Li Huaiqi (李懷奇)	205	–	–	–	–	–	–	–	–	205
Yang Qingli (楊慶理)	227	–	–	–	–	–	–	–	–	227
Wang Tao (王濤)	205	–	–	–	–	–	–	–	–	205
Liu Haisheng (劉海勝)	205	–	–	–	–	–	–	–	–	205
Wong Man Chung Francis (黃文宗)	205	–	–	–	–	–	–	–	–	205
Shi Zheyan (施哲彥)	205	–	–	–	–	–	–	–	–	205
	1,457	3,098	1,338	296	–	–	–	–	–	6,189

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

22 OTHER GAINS – NET

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Government grants	**6,517**	8,941
Net gains on disposal of a subsidiary *(a)*	**1,605**	2,910
Gains on disposal of a joint venture *(b)*	**–**	113
Gains/(losses) on disposal of property, plant and equipment – net	**3,825**	(14,310)
Exchange gains	**98,619**	62,862
Others	**(5,651)**	(3,635)
	104,915	56,881

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

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

On 30 September 2018, Hilong Group of Companies Ltd. and Hilong Energy Limited transferred their total 51% equity interest of Shanxi Tangrong Hilong Drill Tools Co., Ltd. to Shanxi Tangrong Machinery Manufacturing Co., Ltd. at a consideration of RMB16,160,000. The Group recorded a loss of approximately RMB536,125 from the disposal. RMB8,240,000 of the consideration was waived by an offsetting agreement and the remaining balance of RMB7,920,000 was collected in 2018.

(b) On 27 December 2018, Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. was liquidated (Note 10). The Group recorded a gain of approximately RMB113,200 from the disposal of the investment.

23 FINANCE COSTS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**3,523**	7,630
– Fair value gains on financial assets at FVPL	**–**	1,475
	3,523	9,105
Finance costs:		
– Interest expense on bank borrowings	**(246,136)**	(217,459)
– Interest expense on lease liabilities	**(2,611)**	–
– Less: interest capitalised	**–**	4,996
– Exchange losses	**(29,746)**	(106,328)
	(278,493)	(318,791)
Finance costs – net	**(274,970)**	(309,686)

24 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax	**119,074**	108,050
Deferred income tax *(Note 12)*	**5,109**	(26,038)
Income tax expense	**124,183**	82,012

24 INCOME TAX EXPENSE (continued)

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**312,404**	232,543
Tax calculated at statutory tax rates applicable to each group entity	**78,212**	51,228
Tax effect of:		
Expenses not deductible for tax purpose	**3,788**	5,057
Additional deduction for research and development expenses *(b)*	**(8,960)**	(8,242)
Tax effect of reduced tax rate	**1,447**	–
Utilisation of previously unrecognised tax losses	**(11,825)**	(12,957)
Tax losses of subsidiaries not recognised	**61,521**	46,926
Tax charge	**124,183**	82,012

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

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

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

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

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates ranging from 15% to 35% prevailing in the places in which these enterprises operated for the year ended 31 December 2019 (31 December 2018: 15% to 35%).

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

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

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

24 INCOME TAX EXPENSE (continued)

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate can be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("Hilong Energy") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the PRC holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2016 to 2018. As at 31 December 2019, Hilong Energy is in the process of renewal of the qualification.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 31 December 2019 and 29 December 2018, all the earnings generated by the Company's wholly-owned PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB3,267,000 (2018: RMB6,437,000) have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2019. As at 31 December 2019, deferred income tax liabilities of RMB76,920,000 (31 December 2018: RMB73,653,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,538,400,000 (31 December 2018: RMB1,473,060,000).

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

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

	Year ended 31 December	
	2019	2018
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	15%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	15%
Shanghai Boteng Welding Consumable Co., Ltd.*	**15%**	15%
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.*	**15%**	15%
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.*	**15%**	15%
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.*	**15%**	25%
Hilong Group (Shanghai) Information Technology Company*	**15%**	25%

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

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

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2017 to 2019, and the qualification is in the process of renewal.

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

24 INCOME TAX EXPENSE (continued)

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

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

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

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

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

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

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

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

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2019 and 2018.

(b) Additional deduction for research and development expenses

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

25 EARNINGS PER SHARE

Basic earnings per share

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

	Year ended 31 December	
	2019	2018
Profit attributable to equity owners of the Company *(RMB'000)*	**176,818**	148,741
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic earnings per share *(RMB per share)*	**0.1042**	0.0877

25 EARNINGS PER SHARE (continued)

Diluted earnings per share

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 31 December) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 31 December 2019, there were 29,500,300 (31 December 2018: 29,564,300) share options outstanding related to Pre-IPO share option plan (Note 18(b)(i)). For the years ended 31 December 2019 and 31 December 2018, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 31 December 2019, there were 16,058,100 (31 December 2018: 17,221,200) share options outstanding related to 2013 Share Option Scheme (Note 18(b)(ii)). For the years ended 31 December 2019 and 31 December 2018, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

26 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 29 March 2020, a final dividend of HKD0.0200 (equivalent to approximately RMB0.0180) per share for the year ended 31 December 2019 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 10 July 2020 to the shareholders of the Company whose names appear on the register of members of the Company as at 30 June 2020. The total amount is estimated to be HKD33,928,000 (equivalent to approximately RMB30,535,000). These financial statements do not reflect this dividend payable.

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

The dividend in respect of 2017 of HKD0.0100 (equivalent to RMB0.0087) per share, amounted to a total dividend of HKD16,964,000 (equivalent to RMB14,734,000), was approved at the Company's annual general meeting on 22 June 2018. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2018 and paid out.

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

27 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax for the year	**312,404**	232,543
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 7)*	**354,105**	272,011
– Amortisation of Right-of-use assets *(Note 8)*	**24,463**	2,100
– Amortisation of intangible assets *(Note 9)*	**3,490**	3,928
– Amortisation of long term assets *(Note 11)*	**29,566**	12,917
– Provision for loss allowance of receivables *(Note 14(b)(ii))*	**42,266**	12,418
– Share of profit of investments accounted for using equity method *(Note 10)*	**(5,236)**	(7,121)
– Gains on disposal of subsidiaries and joint venture *(Note 22)*	**(1,605)**	(3,023)
– Finance costs *(Note 23)*	**278,493**	317,316
– (Gains)/losses on disposal of property, plant and equipment *(Note 22)*	**(3,825)**	14,310
– Share option expenses *(Note 18(b))*	**93**	1,066
	1,034,214	858,465
Changes in working capital:		
– Increase in trade and other receivables	**(495,543)**	(87,746)
– Increase in financial assets at FVOCI	**(173,726)**	–
– Increase in inventories	**(42,430)**	(187,564)
– Decrease/(increase) in restricted cash	**23,690**	(30,643)
– Increase in deferred revenue	**4,805**	19,487
– Increase in trade and other payables	**138,727**	13,409
	(544,477)	(273,057)
Cash generated from operations	**489,737**	585,408

27 CASH GENERATED FROM OPERATIONS (continued)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net book amount *(Note 7)*	**15,832**	35,874
Net gains/(losses) on disposal of property, plant and equipment *(Note 22)*	**3,825**	(14,310)
Proceeds from disposal of property, plant and equipment	**19,657**	21,564
Collected in the year	**2,041**	2,447
Not yet collected *(i)*	**17,616**	19,117
	19,657	21,564

(i) The not yet collected amount of RMB19,117,000 as at 31 December 2018 has been fully collected in 2019.

(c) Net debt reconciliation

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents *(Note 14(c))*	**783,178**	661,738
Restricted cash *(Note 14(c))*	**124,329**	184,479
Borrowings – repayable within one year *(Note 14(d))*	**(1,712,111)**	(575,942)
Borrowings – repayable after one year *(Note 14(d))*	**(1,531,246)**	(2,494,673)
Lease liabilities	**(40,397)**	–
Net debt	**(2,376,247)**	(2,224,398)
Cash and liquid investments	**907,507**	846,217
Gross debt – fixed interest rates	**(2,875,268)**	(2,706,930)
Gross debt – variable interest rates	**(368,089)**	(363,685)
Lease liabilities	**(40,397)**	–
Net debt	**(2,376,247)**	(2,224,398)

27 CASH GENERATED FROM OPERATIONS (continued)

(c) Net debt reconciliation (continued)

	Liability from financing activities					Other assets			
	Borrowings due with one year RMB'000	Borrowings due after one year RMB'000	Lease liabilities RMB'000	Dividends payable RMB'000	Interest payables RMB'000	Cash and Cash equivalent RMB'000	Restricted cash RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
Net debt as at 1 January 2018	(544,012)	(1,905,440)	–	(3,482)	(5,362)	389,014	150,006	24,040	(1,895,236)
Cash flows	(26,594)	(472,817)	–	19,481	205,028	269,277	34,473	(25,515)	3,333
Foreign exchange adjustments	(3,770)	(106,005)	–	–	–	3,447	–	–	(106,328)
Commissions	437	13,340	–	–	–	–	–	–	13,777
Amortisation	(2,003)	(23,751)	–	–	–	–	–	–	(25,754)
Other non-cash movements	–	–	–	(20,108)	(206,692)	–	–	1,475	(225,325)
Net debt as at 31 December 2018	(575,942)	(2,494,673)	–	(4,109)	(7,026)	661,738	184,479	–	(2,235,533)
Recognised on adoption of HKFRS 16 *(see Note 3)*	–	–	(60,307)	–	–	–	–	–	(60,307)
Net debt as at 1 January 2019	(575,942)	(2,494,673)	(60,307)	(4,109)	(7,026)	661,738	184,479	–	(2,295,840)
Cash flows	(1,107,890)	955,369	23,867	15,324	233,966	117,030	(60,575)	–	177,091
Foreign exchange adjustments	(3,709)	(30,140)	(192)	–	(540)	4,410	425	–	(29,746)
Commissions	–	43,773	–	–	–	–	–	–	43,773
Amortisation	(24,570)	(5,575)	(2,611)	–	–	–	–	–	(32,756)
Other non-cash movements	–	–	(1,154)	(23,024)	(259,764)	–	–	–	(283,942)
Net debt as at 31 December 2019	(1,712,111)	(1,531,246)	(40,397)	(11,809)	(33,364)	783,178	124,329	–	(2,421,420)

28 COMMITMENTS

(a) Capital commitments

No capital expenditure contracted for at each balance sheet date, but not yet incurred.

(b) Operating lease commitments

The Group leases various land, buildings and machinery and equipment under non-cancellable operating leases expiring typically within 3 to 5 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised Right-of-use assets for these leases, except for short-term leases, see Note 3 and Note 8 for further information.

28 COMMITMENTS (continued)

(b) Operating lease commitments (continued)

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
No later than 1 year	–	32,865
Later than 1 year and no later than 3 year	–	30,262
Later than 3 years	–	17,254
	–	80,381

29 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The ultimate parent company of the Group is Hilong Group Limited, which owns 51.97% (31 December 2018: 51.97%) equity interest in the Company as at 31 December 2019. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2019 and 2018, and balances arising from related party transactions as at 31 December 2019 and 2018.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hilong Group Limited
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hailong Oil Investments Co., Ltd.
Shanghai Hilong Shine New Material Co., Ltd.
Shanghai Longshi Investment Management Co., Ltd.

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

29 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2019 and 2018, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Sales of goods or services:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**29,521**	15,685
Shanghai Hilong Shine New Material Co., Ltd.	**7,152**	21,880
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**5,829**	11,023
	42,502	48,588
Purchase of goods or services:		
Shanghai Hilong Shine New Material Co., Ltd.	**13,610**	8,956
Short-term rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**10,028**	10,820
Shanghai Longshi Investment Management Co., Ltd.	**–**	2,835
	10,028	13,655
Interest expenses on lease liabilities:		
Shanghai Longshi Investment Management Co., Ltd.	**131**	–
Beijing Huashi Hailong Oil Investments Co., Ltd.	**59**	–
	190	–
Rental income:		
Shanghai Hilong Shine New Material Co., Ltd.	**2,476**	1,238

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of the business and in accordance with the terms of the underlying agreements.

(c) Balances with related parties

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**3,795**	2,234
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**2,345**	1,805
	6,140	4,039

29 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Other receivables due from:		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**66,502**	52,484
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**48,374**	44,621
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**28,774**	24,609
Shanghai Hilong Shine New Material Co., Ltd.	**3,372**	7,112
Hilong Group Limited	**1,515**	1,515
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	**–**	3,525
	148,537	133,866
Lease liabilities due to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**539**	–
Shanghai Longshi Investment Management Co., Ltd.	**1,414**	–
	1,953	–
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**15,183**	15,984
Other payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**31,588**	3,774
Beijing Huashi Hailong Oil Investments Co., Ltd.	**12,218**	10,355
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**8,000**	–
Mr. Zhang Jun	**938**	938
Shanghai Longshi Investment Management Co., Ltd.	**6,975**	3,964
	59,719	19,031
Dividend receivables:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,746**	2,036

The receivables and payables from related parties were unsecured, no interest bearing and repayable on demand.

29 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

Key management includes directors (executive and non-executive) and senior management (includes chief financial officer and general managers etc). The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Salaries	**7,799**	8,485
Discretionary bonus	**4,892**	4,662
Social security costs	**865**	881
Share options	**–**	39
	13,556	14,067

30 SUBSIDIARIES

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2019 RMB'000	2018 RMB'000	Direct/ Indirect	Principal activities
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 8 March 2002	RMB26,000,000	**100%**	51%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	the PRC, 22 October 2003	USD2,960,000	**66.22%**	38.09%	Indirect	Coating service provision
Hilong Group of Companies Ltd.	the PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	the PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Pipeline Engineering Technology Service Co., Ltd.	the PRC, 9 November 2005	RMB100,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	the PRC, 29 December 2005	RMB3,000,000	**100%**	100%	Indirect	Manufacture and distribution of hardbanding materials

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2019 RMB'000	2018 RMB'000	Direct/ Indirect	Principal activities
Hilong Investment Ltd.	Malaysia, 13 September 2006	USD100	**100%**	100%	Indirect	Investment holding
Shanghai Hilong Tubular Goods Research Institute	the PRC, 27 October 2006	RMB5,000,000	**100%**	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Hilong Petroleum Pipe Company LLC	Abu Dhabi, 6 November 2006	AED1,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	the PRC, 17 November 2006	RMB50,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006	KZT110,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007	CAD100	**100%**	100%	Indirect	Oil and gas equipment trading and coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	the PRC, 30 April 2007	RMB105,880,000	**95%**	95%	Indirect	Manufacture and distribution of special steel
KeAoTe Petroleum Engineering Co., Ltd.	the PRC, 7 January 2008	RMB20,000,000	**65%**	45.4%	Indirect	Coating service provision
Hilong Energy Limited	Hong Kong, 8 July 2008	HKD1	**100%**	100%	Indirect	Investment holding
Hilong Oil Service & Engineering Co., Ltd.	the PRC, 16 July 2008	RMB80,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong USA LLC	USA, 9 November 2008	USD1,030,000	**100%**	100%	Indirect	Oil and gas equipment trading

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2019 RMB'000	2018 RMB'000	Direct/ Indirect	Principal activities
Shanghai Hilong Special Steel Pipe Co., Ltd.	the PRC, 5 January 2009	RMB120,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	the PRC, 13 January 2009	RMB10,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD5,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltd.	The Republic of Ecuador, 18 March 2009	USD20,000,000	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	the PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	the PRC, 9 June 2009	RMB20,000,000	**100%**	100%	Indirect	Coating service provision
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 18 September 2009	RMB20,000,000	**100%**	51%	Indirect	Coating service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Pipeline Engineering Technology Service Taicang Co., Ltd.	the PRC, 29 September 2010	RMB15,000,000	**–**	55%	Indirect	Coating service provision
Hilong Oil Service Sucursal Colombia Ltd.	Columbia, 8 February 2012	COP90,734,500	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	the PRC, 1 November 2012	RMB10,000,000	**100%**	100%	Indirect	Research and development on the technology of coating services

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2019 RMB'000	2018 RMB'000	Direct/ Indirect	Principal activities
Trade House Hilong-Rus Co. Ltd.	Russia, 25 March 2013	RUB300,000	**100%**	100%	Indirect	Oil and gas equipment trading
Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd.	Pakistan, 4 April 2013	PKR5,000,000	**100%**	100%	Indirect	Oil service provision
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.	the PRC, 11 October 2013	RMB50,000,000	**100%**	100%	Indirect	Research, inspection and repairment of oil and gas equipment
Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited	Hong Kong, 9 December 2013	HKD1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Marine Engineering (Hong Kong) Limited	Hong Kong, 16 December 2013	HKD1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong USA Holding Corp.	USA, 11 February 2014	USD10	**100%**	100%	Indirect	Investment holding
Texas Internal Pipe Coating, LLC	USA, 26 July 2012	Nil	**100%**	100%	Indirect	Coating service provision
Hilong TIPC Asset Management LLC	USA, 11 February 2014	Nil	**100%**	100%	Indirect	Investment holding
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.	the PRC, 17 April 2014	RMB60,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Mine Drill Pipe Co., Ltd.	the PRC, 11 April 2014	RMB5,000,000	**80%**	80%	Indirect	Manufacture and distribution of oil and gas equipment
Technomash LLC	Russia, 23 November 2009	RUB62,332,000	**100%**	100%	Indirect	Investment holding
Hilong Offshore Oil Development Co., Ltd.	the PRC, 3 December 2014	USD80,000,000	**–**	100%	Indirect	Manufacture and distribution of oil and gas equipment

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2019 RMB'000	2018 RMB'000	Direct/ Indirect	Principal activities
Hilong Drilling & Engineering Service Ltd (Malaysia)	Malaysia, 15 January 2014	USD1,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Albania SHPK	Albania, 28 July 2014	ALL3,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Offshore Engineering Limited	the PRC, 12 March 2014	RMB50,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Petroleum Offshore Engineering Services (Shanghai) Co., Ltd.	the PRC, 18 February 2014	RMB15,000,000	**100%**	100%	Indirect	Offshore design service provision
Hilong Petroleum Technical Services Nigeria Limited	Nigeria, 24 March 2014	NGN5,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Perú S.A.C.	Peru, 30 March 2015	PEN3,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service DMCC	Dubai, UAE, 28 June 2015	AED160,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Pipeline Service (Surgut) LLC	Russia, 2 March 2017	RUB1,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Zuanbeicai International Trading Co., Ltd	the PRC, 28 June 2017	RMB2,000,000	**100%**	100%	Indirect	Distribution and trading of oil and gas equipment
Well X, Inc.	USA, 9 July 2017	USD65,000	**62.50%**	62.50%	Indirect	Oilfield service provision
Hilong Oil & Gas Service Co., Ltd	the PRC, 20 March 2017	RMB17,400,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Offshore (M) SDN. BHD	Malaysia, 30 August 2017	MYR100	**100%**	100%	Indirect	Offshore oilfield service provision
OHJV.SDN.BHD	Malaysia, 21 August 2017	MYR1,000	**100%**	100%	Indirect	Offshore oilfield service provision

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2019 RMB'000	2018 RMB'000	Direct/ Indirect	Principal activities
Hilong Oriente Co., Ltd	The Republic of Ecuador, 24 October, 2017	USD2,000	**100%**	100%	Indirect	Oilfield service provision
West Texas Internal Pipe Coating LLC	USA, 18 May,2017	Nil	**100%**	100%	Indirect	Coating service provision
West Texas Internal Pipe Asset management LLC	USA, 18 May, 2017	Nil	**100%**	100%	Indirect	Investment holding
Hilong Group (Shanghai) Information Technology Company	The PRC, 15 June, 2018	RMB900,000	**100%**	100%	Indirect	Coating service provision
Hilong Petroleum Pipe Service (Orenburg) Limited Liability Company	Russia, 28 August, 2018	RUB10,000	**100%**	100%	Indirect	Coating service provision
Hilong USA Technology Holding Corporation	USA, 02 April, 2019	Nil	**100%**	–	Indirect	Oilfield service provision
Hilong Technology Limited	Hong Kong, 27 March, 2019	HKD100	**100%**	–	Indirect	Offshore oilfield service provision
Hilong New Material Limited	Hong Kong, 12 March, 2019	HKD1	**100%**	–	Indirect	Offshore oilfield service provision
Ocentra Offshore Pte. Ltd.	Singapore, 24 July, 2019	USD200,000	**51%**	–	Indirect	Offshore oilfield service provision
Hilong Oil Service And Engineering Ukraine LLC	Ukraine October 24, 2018	USD50,000	**100%**	–	Indirect	Oilfield service provision

* Hilong Offshore Oil Development Co., Ltd. was liquidated in May 2019.

* Hilong Pipeline Engineering Technology Service Taicang Co., Ltd. was disposed in October 2019.

* The above subsidiaries established in the PRC are in the legal form of limited liability company.

31 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 29 March 2020, a dividend of HKD0.0200 (equivalent to approximately RMB0.0180) per share was proposed. Details refer to Note 26.

In December 2019, Hilong Pipeline Engineering Technology Service Co., Ltd. signed an agreement with Beijing Huashi Hailong Oil Investments Co., Ltd. ("Huashi Investment") to purchase 51% equity interest of Shanghai Hilong Shine New Material Co., Ltd., a wholly-owned subsidiary of Huashi Investment, at a cash consideration of RMB84,150,000. Up to the date of approving the consolidated financial statements of the Company, the transaction is still in process. Details of the transaction were set out in the announcement dated 5 December 2019 and the circular dated 6 December 2019 of the Company.

Since early 2020, the outbreak of COVID-19 in Mainland China and overseas countries has affected business and economic activities across all industries, including the companies in oil and gas industry. The recent decrease of the global demands together with the failure of OPEC and Russia to reach an agreement on production cuts caused the sharp decline of crude oil price, and the Group expects that it may lead to the reduce or curtailment of the expenditure by oil and gas companies in relation to the exploration, drilling and production activities. The Group will pay close attention to this fluid situation and take proactive measures to mitigate the potential negative impact on the Group's business performance in 2020.

32 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**54,314**	54,221
Current assets			
Trade and other receivables		**4,355,034**	3,996,654
Cash and cash equivalents		**53,842**	4,206
Restricted cash		**17,092**	–
		4,425,968	4,000,860
Total assets		**4,480,282**	4,055,081
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares		**141,976**	141,976
Other reserves	*Note (a)*	**1,221,838**	1,221,745
Retained earnings	*Note (a)*	**19,601**	19,386
Total equity		**1,383,415**	1,383,107
LIABILITIES			
Non-current liabilities			
Borrowings		**1,356,369**	2,316,842
Current liabilities			
Trade and other payables		**479,520**	195,420
Borrowings		**1,260,978**	159,712
		1,740,498	355,132
Total liabilities		**3,096,867**	2,671,974
Total equity and liabilities		**4,480,282**	4,055,081

The balance sheet of the Company was approved by the Board of Directors on 29 March 2020 and was signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

32 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (continued)

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
As at 1 January 2018	19,201	1,220,679
Profit for the year	14,919	–
Dividend paid relating to 2017	(14,734)	–
2013 Share Option Scheme	–	1,066
As at 31 December 2018	19,386	1,221,745
As at 1 January 2019	**19,386**	**1,221,745**
Profit for the year	**15,539**	**–**
Dividend paid relating to 2018	**(15,324)**	**–**
2013 Share Option Scheme	**–**	**93**
As at 31 December 2019	**19,601**	**1,221,838**

33 APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 29 March 2020.

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below.

Consolidated results	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,649,906**	3,222,416	2,669,347	1,929,037	2,484,329
Gross profit	**1,161,181**	1,020,682	845,601	666,794	809,906
Gross profit margin	**31.8%**	31.7%	31.7%	34.6%	32.6%
Operating profit	**582,138**	535,108	224,677	492,461	424,521
Operating profit margin	**15.9%**	16.6%	8.4%	25.5%	17.1%
Profit for the year	**188,221**	150,531	125,700	127,909	174,111
Profit attributable to					
Equity owners of the Company	**176,818**	148,741	119,150	124,611	160,893
Non-controlling interests	**11,403**	1,790	6,550	3,298	13,218

Consolidated assets, equity and liabilities	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	**3,867,354**	3,864,576	3,442,905	3,607,018	3,476,766
Current assets	**4,673,637**	4,035,121	3,707,651	3,691,156	3,587,633
Total assets	**8,540,991**	7,899,697	7,150,556	7,298,174	7,064,339
EQUITY AND LIABILITIES					
Total equity	**3,706,463**	3,522,010	3,463,775	3,491,878	3,256,136
Non-current liabilities	**1,648,441**	2,581,169	1,970,125	1,397,346	1,152,828
Current liabilities	**3,186,087**	1,796,518	1,716,656	2,408,950	2,655,435
Total liabilities	**4,834,528**	4,377,687	3,686,781	3,806,296	3,808,263
Total equity and liabilities	**8,540,991**	7,899,697	7,150,556	7,298,174	7,064,339