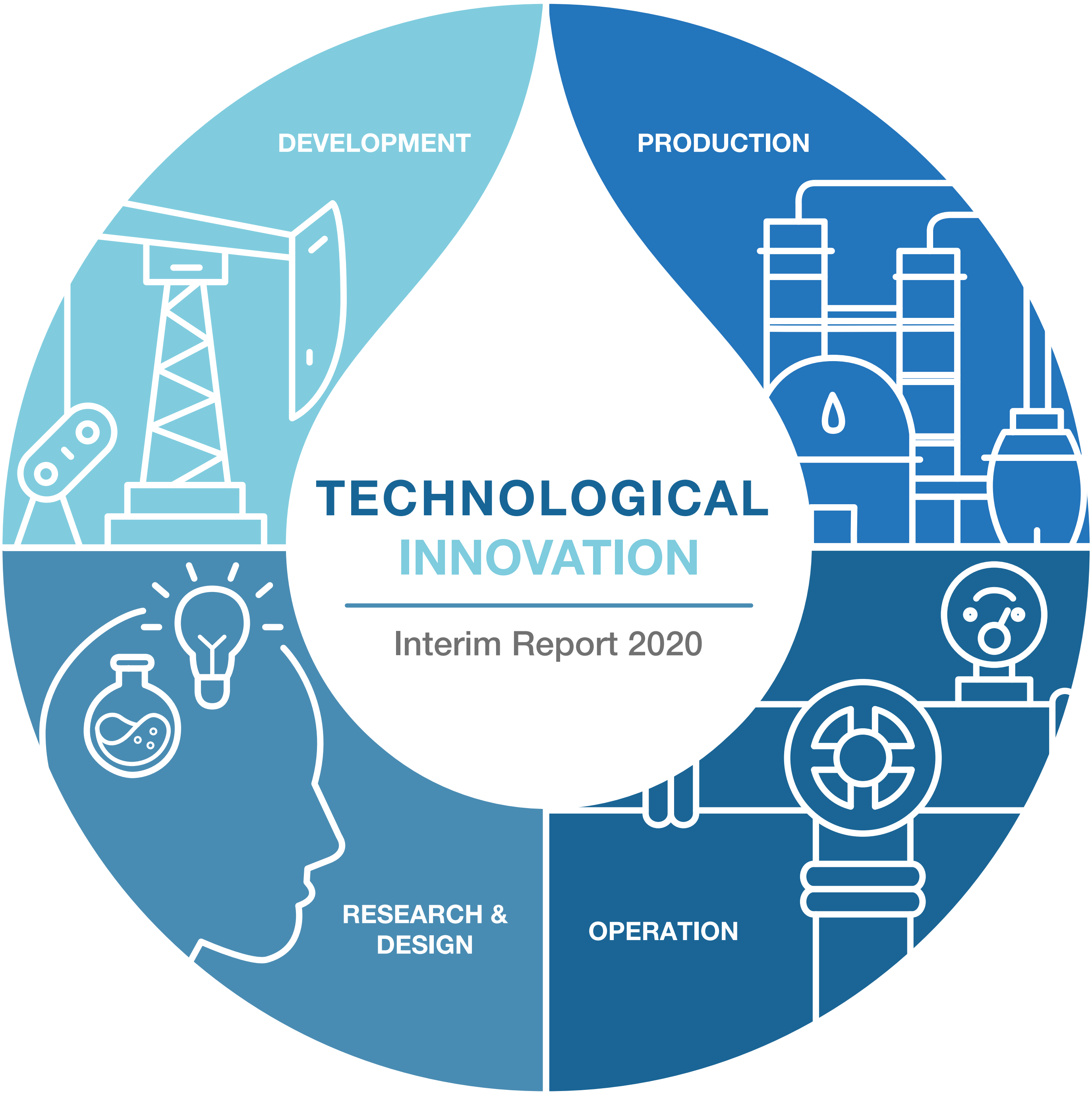
海隆控股有限公司*

Hilong Holding Limited

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

TECHNOLOGICAL INNOVATION

Interim Report 2020



* For identification purpose only

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This Interim report is printed on environmental paper

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)(1)
Dr. Yang Qingli (楊慶理)
Mr. Cao Hongbo (曹宏博)(3)

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)(1)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Shi Zheyan (施哲彥)(2)

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

Notes:

(1) Retirement took effect on 19 June 2020.

(2) Appointment took effect on 19 June 2020.

(3) Appointment took effect on 28 August 2020.

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

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
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183 Queen's Road East, Wan Chai, Hong Kong

PRINCIPAL BANKERS

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

WEBSITE AND CONTACT

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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**549,887**	**35.2**	578,724	31.1
– Oil country tubular goods ("**OCTG**") coating services	**142,636**	**9.2**	150,641	8.1
– Drill pipe components	**21,455**	**1.4**	24,465	1.3
– Hardbanding	**17,849**	**1.1**	12,705	0.7
– Others	**94,693**	**6.1**	74,865	4.0
Subtotal	**826,520**	**53.0**	841,400	45.2
Line pipe technology and services				
– OCTG coating materials	**7,368**	**0.5**	11,764	0.6
– Oil and gas line pipe coating materials	**1,896**	**0.1**	378	–
– Oil and gas line pipe coating services	**23,416**	**1.5**	78,763	4.2
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**11,172**	**0.7**	13,653	0.7
– Concrete Weighted Coating ("**CWC**") services	**35,095**	**2.3**	83,102	4.5
– Pipeline inspection services	**6,454**	**0.4**	13,210	0.7
Subtotal	**85,401**	**5.5**	200,870	10.7
Oilfield services	**431,839**	**27.8**	694,896	37.5
Offshore engineering services	**213,160**	**13.7**	122,401	6.6
Total revenue	**1,556,920**	**100.0**	1,859,567	100.0

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

	Six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Russia, Central Asia and Europe	**508,368**	**32.7**	458,902	24.7
South and Southeast Asia	**321,215**	**20.6**	346,381	18.6
Middle East	**261,550**	**16.7**	167,304	9.0
The PRC	**214,609**	**13.8**	513,510	27.6
North and South America	**144,434**	**9.3**	246,751	13.3
Africa	**106,744**	**6.9**	126,609	6.8
Others	**–**	**–**	110	–
Total	**1,556,920**	**100.0**	1,859,567	100.0

Revenue decreased by RMB302.7 million, or 16.3%, from RMB1,859.6 million for the six months ended 30 June 2019 to RMB1,556.9 million for the Interim Period. Such decrease was mainly due to the decrease in revenue from oilfield services segment and line pipe technology and services segment, and was partly offset by the increase in revenue from offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment decreased by RMB14.9 million, or 1.8%, from RMB841.4 million for the six months ended 30 June 2019 to RMB826.5 million for the Interim Period. Such decrease primarily reflected the decrease in revenue derived from drill pipe sales, which was partly offset by the increased revenue of hardbanding sales.

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

	Six months ended 30 June	
	2020	2019
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**25,914**	18,228
– unit price *(RMB/tonne)*	**19,533**	20,268
Subtotal *(RMB'000)*	**506,167**	369,453
– The PRC market		
– volume *(tonnes)*	**2,623**	12,625
– unit price *(RMB/tonne)*	**16,668**	16,576
Subtotal *(RMB'000)*	**43,720**	209,271
Total *(RMB'000)*	**549,887**	578,724

Revenue from sales of drill pipes in the international market increased by RMB136.7 million, or 37.0%, from RMB369.5 million for the six months ended 30 June 2019 to RMB506.2 million for the Interim Period. The increase primarily reflected an increase of 42.2% in the volume of drill pipes sold from 18,228 tonnes for the six months ended 30 June 2019 to 25,914 tonnes for the Interim Period. The increase in the sales volume reflected the large demands from the Middle East and Russian markets and the Company's strategy to put more effort into long-term cooperation with prestigious customers in international market.

Revenue from sales of drill pipes in the PRC market decreased by RMB165.6 million, or 79.1%, from RMB209.3 million for the six months ended 30 June 2019 to RMB43.7 million for the Interim Period. The decrease primarily reflected a 79.2% decrease in volume of drill pipes sold in the PRC market from 12,625 tonnes for the six months ended 30 June 2019 to 2,623 tonnes for the Interim Period and, to a lesser extent, a 0.6% increase in the domestic average selling price from RMB16,576 per tonne for the six months ended 30 June 2019 to RMB16,668 per tonne for the Interim Period. The decrease in the sales volume was mainly attributable to the delay in capital and operation spending by certain oil and gas companies in the PRC market. While the increase in average selling price primarily reflected the increase in the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group in the Interim Period, compared to that in the six months ended 30 June 2019.

Revenue from OCTG coating services decreased by RMB8.0 million, or 5.3%, from RMB150.6 million for the six months ended 30 June 2019 to RMB142.6 million for the Interim Period. The decrease primarily resulted from the delay in capital and operation spending by certain oil and gas companies for the Interim Period due to the COVID-19 pandemic.

Line pipe technology and services. Revenue from line pipe technology and services segment decreased by RMB115.5 million, or 57.5%, from RMB200.9 million for the six months ended 30 June 2019 to RMB85.4 million for the Interim Period. Such decrease primarily reflected decreases in the revenues derived from oil and gas line pipe coating services and concrete weighted coating (CWC) services. Such decrease was mainly resulted from the postponement of certain projects due to the outbreak of COVID-19.

Oilfield services. Revenue from the oilfield services segment decreased by RMB263.1 million, or 37.9%, from RMB694.9 million for the six months ended 30 June 2019 to RMB431.8 million for the Interim Period. Such decrease was mainly due to the outbreak of COVID-19 in overseas markets, resulting in the lower utilisation rate of drilling rigs for the Interim Period as compared to the six months ended 30 June 2019.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period mainly represented the revenue contribution from the Bengal Project amounting to RMB213.2 million.

Cost of Sales/Services

Cost of sales/services decreased by RMB193.2 million, or 15.5%, from RMB1,249.7 million for the six months ended 30 June 2019 to RMB1,056.5 million for the Interim Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB109.5 million, or 17.9%, from RMB609.9 million for the six months ended 30 June 2019 to RMB500.4 million for the Interim Period. Gross profit margin was 32.1% for the Interim Period, decreased by 0.7% compared to that for the six months ended 30 June 2019.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB4.6 million, or 6.7%, from RMB69.1 million for the six months ended 30 June 2019 to RMB73.7 million for the Interim Period. These expenses, amounted for 4.7% of the total revenue for Interim Period, which are higher than the relevant ratio of 3.7% for the six months ended 30 June 2019. Such increase was primarily resulted from demands for customer development.

Administrative Expenses

Administrative expenses decreased by RMB23.2 million, or 9.4%, from RMB246.0 million for the six months ended 30 June 2019 to RMB222.8 million for the Interim Period. Such decrease primarily reflected the decrease in staff costs and travelling expenses.

Other Gain – Net

The Group recognized net gain of RMB11.1 million for the Interim Period and net gain of RMB36.9 million for the six months ended 30 June 2019. The net gain recognized for the Interim Period primarily reflected an exchange gain of RMB15.2 million from the operating activities as a combined result of the appreciation of the United States Dollar and Hong Kong Dollar. The net gain recognized for the six months ended 30 June 2019 reflected an exchange gain of RMB36.2 million from the operating activities as a combined result of the appreciation of the Ruble, United States Dollar and Hong Kong Dollar.

Finance Costs – Net

Net finance costs increased by RMB53.1 million, or 45.3%, from RMB117.2 million for the six months ended 30 June 2019 to RMB170.3 million for the Interim Period. Such increase primarily reflected (i) an exchange loss of RMB37.6 million from the financing activities resulting from the appreciation of United States Dollar, while the exchange loss for the six months ended 30 June 2019 was 2.9 million; (ii) the interest expense from bank borrowings increased from RMB114.6 million for the six months ended 30 June 2019 to RMB135.1 million for the Interim Period, and was partly offset by an increase in the interest income from RMB1.6 million for the six months ended 30 June 2019 to 3.6 million for the Interim Period.

(Loss)/Profit before Income Tax

As a result of the foregoing, the Group recognized losses before income tax of RMB18.3 million for the Interim Period, comparing to the profit before income tax of RMB198.5 million for the six months ended 30 June 2019.

Income Tax Expense

The Group recognized income tax expense of RMB48.1 million for the six months ended 30 June 2019 and RMB21.2 million for the Interim Period. Effective tax rate was approximately 24.2% for the six months ended 30 June 2019 and -115.5% for the Interim Period. The decrease of effective tax rate mainly reflected the unbalanced distribution of profit among the Group's subsidiaries.

(Loss)/Profit for the period attributable to equity owners of the Company

As a result of the foregoing, the Group recognized losses for the period attributable to equity owners of the Company of RMB41.8 million for the Interim Period, comparing to the profit for the period attributable to equity owners of the Company of RMB148.7 million for the six months ended 30 June 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 periods indicated:

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Inventory	**961,485**	860,109
Turnover days of inventory (in days)(1)	**158**	128

(1) Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 183 for the Interim Period and by 365 for the year ended 31 December 2019. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase of inventories from 31 December 2019 to 30 June 2020 reflected the decrease in consumption of inventory due to lower sales.

Trade and Other Receivables

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

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Trade receivables		
– Due from third parties	**2,190,486**	2,185,505
– Due from related parties	**4,439**	6,140
– Less: Provision for loss allowance of receivables	**(163,227)**	(105,269)
Trade receivables – net	**2,031,698**	2,086,376
Other receivables		
– Due from third parties	**99,949**	103,439
– Due from related parties	**90,631**	148,537
Other receivables	**190,580**	251,976
Dividends receivable	**2,746**	2,746
Total	**2,225,024**	2,341,098

The trade receivables of RMB10,347,000 (31 December 2019: RMB12,813,000) of the Group were used to secure borrowings from financial institutions as at 30 June 2020.

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

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
– Within 90 days	**852,365**	907,375
– Over 90 days and within 180 days	**326,630**	388,624
– Over 180 days and within 360 days	**402,509**	341,155
– Over 360 days and within 720 days	**302,516**	352,456
– Over 720 days	**147,678**	96,766
Trade Receivables	**2,031,698**	2,086,376
Turnover days of trade receivables, net[1]	**242**	195

[1] Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 183 for the Interim Period, and by 365 for the year ended 31 December 2019. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The increase in turnover days of trade receivables from 195 days as at 31 December 2019 to 242 days as at 30 June 2020 primarily reflected the reduced efficiency and the slow down of the settlement process for trade receivables due from certain oil and gas companies in the overseas market during the Interim Period.

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
As at 1 January	**105,269**	154,978
Provision for receivables loss allowance	**63,667**	23,432
Write-off of loss allowance	**(5,709)**	(79,385)
As at 30 June	**163,227**	99,025

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 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Bills payable	**167,772**	233,171
Trade payables		
– Due to related parties	**5,895**	15,183
– Due to third parties	**495,921**	643,219
Other payables		
– Due to related parties	**73,792**	59,719
– Due to third parties	**101,752**	95,575
Staff salaries and welfare payables	**33,323**	42,314
Interest payables	**76,852**	33,364
Accrued taxes (other than income tax)	**80,342**	99,281
Dividends payable	**10,809**	11,809
Other liabilities	**12,507**	17,804
	1,058,965	1,251,439

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

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Trade payables, gross		
– Within 90 days	**302,809**	470,851
– Over 90 days and within 180 days	**162,537**	148,170
– Over 180 days and within 360 days	**25,423**	29,941
– Over 360 days and within 720 days	**10,537**	7,270
– Over 720 days	**510**	2,170
	501,816	658,402
Turnover days of trade payables[1]	**100**	98

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 183 for the Interim Period, and by 365 for the year ended 31 December 2019. Average trade payables equals to balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash from operating activities	**29,723**	149,659
Net cash used in investing activities	**(23,719)**	(78,467)
Net cash generated from/(used in) financing activities	**48,578**	(107,719)
Net increase/(decrease) in cash and cash equivalents	**54,582**	(36,527)
Exchange gains on cash and cash equivalents	**3,534**	176
Cash and cash equivalents at beginning of the period	**783,178**	661,738
Cash and cash equivalents at end of the period	**841,294**	625,387

As at 30 June 2020, cash and cash equivalents were mainly denominated in RMB, USD, RUB, AED, NGN and CAD.

Operating Activities

Net cash generated from operating activities for the Interim Period was RMB29.7 million, representing cash generated from operation of RMB93.6 million, offsetting by the income tax payment of RMB63.9 million.

Net cash generated from operating activities for the six months ended 30 June 2019 was RMB149.7 million, representing cash generated from operations of RMB174.0 million, offsetting by the income tax payment of RMB24.3 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB23.7 million, primarily reflecting payment of RMB26.8 million for purchases of property, plant and equipment and net cash outflow arising from financial instruments of RMB23.0 million, partially offset by proceeds of RMB22.8 million from disposal of property, plant and equipment.

Net cash used in investing activities for the six months ended 30 June 2019 was RMB78.5 million, primarily reflecting payment of RMB92.5 million for purchases of property, plant and equipment and payment of RMB1.8 million for purchases of intangible assets, which offsetting by proceeds of RMB12.9 million from disposal of property, plant and equipment.

Financing Activities

Net cash generated from financing activities for the Interim Period was RMB48.6 million, primarily reflecting proceeds of RMB491.6 million from borrowings, offsetting by repayment of borrowings of RMB351.2 million, interest payment of RMB79.0 million and principal element of lease payments of RMB10.6 million.

Net cash used in financing activities for the six months ended 30 June 2019 was RMB107.7 million, primarily reflecting repayment of borrowings of RMB277.6 million and interest payment of RMB101.4 million, offsetting by proceeds of RMB284.1 million from borrowings.

CAPITAL EXPENDITURES

Capital expenditures were RMB127.5 million and RMB37.6 million for the six months ended 30 June 2019 and the Interim Period respectively. The decrease in capital expenditures for the Interim Period was mainly due to the fact that there was no significant business development in each business segment.

INDEBTEDNESS

As at 30 June 2020, the outstanding indebtedness of RMB3,438.3 million was mainly denominated in USD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Non-current		
Senior Notes – unsecured	–	1,356,369
Bank borrowings – unsecured	–	294
Bank borrowings – secured	197,326	211,517
Less: Current portion of non-current borrowings	(39,874)	(36,934)
	157,452	1,531,246
Current		
Senior Notes and bank borrowings immediately repayable – unsecured	2,710,935	–
Senior Notes – unsecured	–	1,149,216
Bank borrowings – secured	260,280	107,300
Bank borrowings – unsecured	269,772	418,661
Current portion of non-current borrowings	39,874	36,934
	3,280,861	1,712,111

As at 30 June 2020, bank borrowings of RMB3,188.6 million were obtained at fixed rate (31 December 2019: RMB2,875.3 million).

The bank borrowings of RMB95.2 million (31 December 2019: RMB67.8 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB14.3 million as at 30 June 2020 (31 December 2019: RMB13.1 million).

The borrowings of RMB13,769,000 (31 December 2019: RMB15,240,000) from financial institution were secured by trade receivables of RMB10,347,000 (31 December 2019: RMB12,813,000) of the Group as at 30 June 2020.

The bank borrowings of RMB151,345,000 (31 December 2019: RMB24,238,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 30 June 2020.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2020, USD33,545,000 were drawn down, out of which USD5,040,000 had been repaid in 2019 and the six months ended 30 June 2020. 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 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 (collectively, the "**2020 Notes**". together with the 2020 Notes, the "**Existing Notes**"). The 2020 Notes was listed on the Stock Exchange on 23 June 2017 and delisted on 22 June 2020 upon its maturity.

In September 2019, the Company repurchased its outstanding 2020 Notes in an aggregate principal amount of USD144,886,000 out of the proceeds from the concurrent issue of USD200,000,000 8.25% senior notes due 2022 (the "**2022 Notes**") by the Company. After cancellation of the repurchased 2020 Notes, the aggregate principal amount of the 2020 Notes which remains outstanding was USD165,114,400. The 2022 Notes was listed on the Stock Exchange on 27 September 2019 and subsequently suspended from trading on 22 June 2020 due to a cross default triggered by the default of 2020 Notes as described below.

On 22 June 2020, an event of default has occurred under the 2020 Notes due to the Company's failure to repay the outstanding principal amount of the 2020 Notes in the amount of USD165,114,400 (equivalent to approximately RMB1,168.9 million) due on 22 June 2020. The default on the 2020 Notes also triggered cross-defaults of certain debts of the Company amounting to approximately RMB1,572.4 million (collectively "**Cross-default Borrowings**").

On the occurrence of these cross defaults, the Company informed and commenced renegotiation of the terms of the Cross-default Borrowings with the relevant lenders for waiver on the cross defaults triggered. The relevant lenders of the Cross-default Borrowings had frequent communications with the Company and showed the positive support on the Company. In addition, the Group is currently under negotiation with an ad hoc committee formed by certain holders of the Existing Notes who held in aggregate more than 25% of the aggregate principal amount of the Existing Notes then outstanding for a proposed restructuring of the Existing Notes.

Up to the date of this report, the Company has not been rejected on the request for waiver for the cross defaults nor received any written notice from the lenders demanding for immediate repayment of the Cross-default Borrowings. Therefore, the Directors do not expect to receive any request from the lenders for demand for immediate repayment for the Cross-default Borrowings and consider that such cross defaults did not cause material adverse impact on the Group.

Notwithstanding the above, among the Cross-default Borrowings, the non-current borrowings have been reclassified as current liabilities as at 30 June 2020 pursuant to applicable accounting standards. The reclassification has been reflected in the interim condensed consolidated financial information for the six months ended 30 June 2020 in this report.

Save as disclosed above, as at the date of this report, to the knowledge of the Directors, the Company has not received any notice demanding immediate repayment of debts under other indebtedness of the Group.

GEARING RATIO

The Group's objectives in capital management are to maintain the Group's ability to operate as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with peers in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) and lease liabilities less cash and cash equivalents, restricted cash and financial assets at fair value through profit or loss. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The gearing ratios as at 30 June 2020 and 31 December 2019 are as follows:

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Total borrowings	**3,438,313**	3,243,357
Add: Lease liabilities	**30,184**	40,397
Less: Cash and cash equivalents	**(841,294)**	(783,178)
Restricted cash	**(139,105)**	(124,329)
Financial assets at FVPL	**(23,148)**	–
Net debt	**2,464,950**	2,376,247
Total equity	**3,614,544**	3,706,463
Total capital	**6,079,494**	6,082,710
Gearing ratio	**40.55%**	39.07%

FOREIGN EXCHANGE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 12.7% appreciation of RMB against the USD from 21 July 2005 to 30 June 2020. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 46.4% and 46.3% of the total revenue of the Company for the six months ended 30 June 2019 and the Interim Period, respectively.

STAFF AND REMUNERATION POLICY

As at 30 June 2020, the total number of full-time employees employed by the Group was 2,981 (31 December 2019: 3,188). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2020:

On-site workers	1,867
Administrative	493
Research and development	102
Engineering and technical support	398
Company management	33
Sales, marketing and after-sales services	88
	2,981

Employee costs excluding the Directors' remuneration totalled RMB329.0 million for the Interim Period.

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

The Company 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 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 report, none of the share options granted has been exercised.

BUSINESS REVIEW

Since the beginning of 2020, the Company has faced multiple challenges from the external operating environment. In particular, the combined effects of various factors lingering in the international market has casted further uncertainties over the overseas business operations of the Company. The significant and continuous impact of the prolonged COVID-19 pandemic on the global economy has led to a slump in the crude oil demand. Since the first quarter of 2020, the international oil price has continued to fall as a result of the dispute between Saudi Arabia and Russia over the oil and gas industry and hovered around current low level. This has been a major downturn in the global oil and gas industry since the gradual recovery in oil prices in 2018. In addition, the tensions between the United States and China over the escalating trade conflicts also exposed the overseas business of the Company to more complicated operating environment.

In the meantime, driven by a number of positive factors, the Company was able to retain its strength for business development amid the predicament during the first half of 2020. The establishment of National Petroleum and Gas Pipe Network Group Co., Ltd (國家石油天然氣管網集團有限公司) (hereinafter referred to as "**National Petroleum and Gas Pipe Network Group**") at the end of 2019 is expected to accelerate the implementation of the "Medium and Long-term Oil and Gas Pipeline Network Planning" promulgated collectively by the National Development and Reform Commission and the National Energy Administration, which would effectively lead to the launch of several major domestic oil and gas pipeline network construction projects, and thus bring long-term development opportunities to the Company's line pipe technology and services businesses. In addition, the launch of the "Seven-Year Action Plan of 2019-2025 for China's Oil and Gas Industry" (中國油氣行業2019-2025七年行動方案) (the "**Seven-Year Action Plan**") by The National Energy Administration promoting domestic oil and gas exploration and development, and the national guidance encouraging import substitution, are expected to give rise to more business opportunities for local enterprises. As a leading domestic player in multiple oil and gas sub-segments, Hilong will therefore benefit from the promotion and implementation of the Seven-Year Action Plan. Furthermore, Hilong had continued to maintain a steady momentum in overseas markets development, in particular, achieving significant progress in the market exploration, customer education, industry standard formulation and other aspects of the OCTG coating services market in Russia, and establishing a leading market position in Russia and the surrounding areas such as Eastern Europe and Central Asia.

Due to the above-mentioned multiple external challenges, the Company's financial performance declined in the first half of 2020. During the reporting period, Hilong recorded a total revenue of RMB1,557 million, representing a decrease of approximately 16% compared to the same period in 2019. Such decrease was mainly attributable to the decline in performance of oilfield services segment and line pipe technology and services segment which were affected more severely by the pandemic due to their focuses on overseas markets in recent years. The revenue generated from the oilfield equipment manufacturing and services segment remained stable, recoding a slight decline for the period, which was mainly attributable to the outstanding performance of overseas markets operations. Owing to the efforts in the past few years, the offshore engineering services segment grew sharply against the backdrop of the downturn in 2020. Although the performance of certain business segments temporarily declined due to the severe external market condition, the Company's overall operation proceeded orderly, with production, sales and other work streams functioning normally. The Group implemented refined management policy and adopted various measures to reduce capital expenditures and control costs. Meanwhile, business teams from different segments actively adjust business strategies and explore development opportunities for future operation and development to adapt to the new normal.

Oilfield Equipment Manufacturing and Services

During the Interim Period, the oilfield equipment manufacturing and services segment generated revenue of RMB827 million, representing a decrease of approximately 2% as compared with the first half of 2019. The global economic slowdown and ongoing pandemic resulted in a slump in global oil demand. Accordingly, oil companies have reduced drilling activities, leading to a downward trend in customers' demand for oilfield equipment. However, drill pipe, as a daily consumable for oil and gas exploration and development activities, generally has to be replaced regularly. This specific nature of drill pipe and its components partially offset the negative impact on the market demand for such products.

In addition, the use of anti-corrosion coating remarkably extends the service life of OCTG products, and significantly reduces accident rate, and thus saves the time and relevant expenses of downtime due to accidents, thereby improving drilling efficiency and saving overall costs for customers. During the reporting period, despite the downward trend, three coating plants run by the Company in Russia experienced a growth in their performances and were fully loaded. For example, the newly built coating plant of Hilong in Orenburg, Russia started operation in 2019, and its cumulative output as of the end of April 2020 has exceeded its full-year output in 2019. As of the end of June 2020, the total yield of the three plants has exceeded 2.9 million meters. This was attributable to the continuous efforts of Hilong in vigorously promoting the OCTG coating in Russia and its surrounding markets of Eastern Europe and Central Asia for years, and Hilong's strong technological strengths and high-quality product. It is not only a full embodiment of the absolute leading position of Hilong's OCTG coating business in the market but also a strong proof that this business can achieve sustainable and steady development in the current market environment. Moreover, Hilong endeavors to explore application of such coating in products other than OCTG products, such as gathering pipes, customized pipes such as fittings and bend pipes and process piping in refineries, and has achieved preliminary success in part of the domestic market as well as overseas markets such as Middle East and the U.S.

Oilfield Services

During the Interim Period, revenue derived from oilfield services segment amounted to approximately RMB432 million, representing a decrease of approximately 38% as compared with the same period in the first half of 2019. Due to the various factors such as COVID-19 pandemic and the turmoil in global oil and gas industry, customers generally reduced drilling activities, and thus the demand for the Company's oilfield services segment decreased more significantly than other segments. Some of the Company's ongoing drilling services business have been suspended, partly due to the local government's suspension on local economic activities pursuant to the epidemic control measures, and partly due to customers' concerns about safety risks or restrictions on their own cash flow. This has put pressure on the Company's ongoing projects. In the face of the market downturn, the Company actively strived to maintain the workload. During the reporting period, several drilling and workover rigs of the Company remained normal operation with satisfactory overall performance and were highly recognized by the customers. For example, the drilling work of the Oman project and the Ecuador project were successfully completed with work efficiency significantly improved, which has been highly appraised by the customers; Hilong's two drilling rigs working for PDO ranked among the top in the comprehensive KPI evaluation contest conducted by the customer; the Ukraine team achieved excellent performance and ranked first in the comprehensive evaluation contest for service providers in the first half year conducted by UkrGasVydobuvanya (UGV) and further secured the most difficult task and successfully completed such task. Despite the overall downturn in the industry, the Company continued to actively exploring opportunities to bid for new contracts in drilling and workover services. Meanwhile, in order to reduce the capital expenditures, the Company only considers potential projects of which the demand can be fulfilled by using the existing drilling rigs, and the Company will temporarily suspend its participation in the bidding for projects that may require a large amount of initial capital investment (including the purchase of new drilling rigs). During the reporting period, the Company successfully won bids in Ukraine, Pakistan and Ecuador to ensure the subsequent workloads in these areas.

Line Pipe Technology and Services

During the Interim Period, revenue derived from line pipe technology and services segment amounted to approximately RMB85 million, representing a decrease of approximately 57% as compared with the same period in the first half of 2019. In the past few years, the Company focused on the development of overseas pipeline coating market, and has successfully secured and completed a number of significant orders, which have made significant contribution to the growth of the Company's performance over the past few years. In 2020, due to the impact of the COVID-19 pandemic, and the liquidity shortage of certain customers, some overseas projects of Hilong have been suspended, which brings certain challenges to the operation of this segment. The pipeline inspection services business was also temporarily suspended due to the travel restrictions caused by the epidemic. In order to cope with these challenges and to capture the domestic market opportunities brought along by the establishment of the National Petroleum and Gas Pipe Network Group at the end of 2019, with the Group's existing technology and capacity, Hilong intends to focus on exploring potential opportunities in the field of domestic oil and gas transmission pipeline, and actively explore projects beyond the oil and gas industry, which are supported by the central and local governments of China.

Offshore Engineering Services

During the Interim Period, the offshore engineering services segment recorded a total revenue of approximately RMB213 million, representing a remarkable increase of approximately 74% as compared with the same period in the first half of 2019. The offshore engineering services segment of the Group provides offshore engineering design, procurement, construction and installation services ("**EPCI**"), and is actively expanding into the field of public infrastructure engineering. During the past few years, the Company has attached great importance to the development and expansion of markets such as China and Southeast Asia, and has gradually established track records and competitive advantages in these regional markets by successfully implementing a number of projects. During the reporting period, Hilong successfully completed the 135-kilometer offshore pipeline construction of the Bangladesh single-point mooring and double pipeline project, suggesting the smooth and early completion of the key parts of this project. Given its challenging design requirement, complex pipe laying condition and heavy workload, the project is the most complicated overseas construction project that Hilong has undertaken so far for its offshore engineering services business segment. Hilong managed to complete the work ahead of schedule by one dry season (about 8 months), which only accounted for half of the planned time, and therefore has freed up more time for HILONG106 to participate in subsequent market opportunities. During the construction of this project, Hilong adopted several "quality and efficiency enhancement" measures to set a number of high-efficiency construction records while ensuring the quality and safety of the project. The management capability, technical strength, construction quality, work efficiency and dedicated spirit demonstrated by Hilong team during the project execution have been highly recognized by the customer and other cooperation partners.

In the meantime, Hilong's offshore engineering services team is actively seeking to expand into sectors beyond the oil and gas industry, including wind power and offshore piling and other related industries, striving to explore more diversified business opportunities amidst the current downturn of oil price in support of the goal to achieve sound operations as soon as possible for this business segment. Recently, Hilong has signed a service contract with the Xiamen Branch of CCCC Third Harbor Engineering Co., Ltd. (中交第三航務工程局有限公司廈門分公司), with a total contract value amounting to approximately RMB233 million. Under the service contract, Hilong will provide leasing services for CCCC's offshore wind power projects and provide operations-related services. The contract term is approximately 17 months and will be terminated at the end of next year. The signing of this contract marks the successful entry of Hilong's offshore engineering services into the offshore wind power construction market.

Research and Development

Hilong always adheres to the development strategy of scientific and technological innovation, and attaches great importance to investing in research and development and transforming the research and development results. During the first half of 2020, all business segments of the Company have established new research and development projects or achieved milestone results, including but not limited to, optimization and experimental research of 120S and 125S high steel-grade sour service drill pipe products, research and product optimization of high-strength anti-corrosive drill pipe; development of the powder-based OCTG coating materials applied in ultra-high temperature environment; promotion and application of 8-inch, 10-inch, and 24-inch internal pipeline inspection devices, and development of expanded functions of the data processing and analysis system; as well as the optimization design of the steel slag concrete-weighted coating of the subsea pipeline, the research and development of anti-corrosion technology for pipe-in-pipe. The various research projects were originated from business practices, which were carried out with a view to meet customers' practical needs. Once these research and development results are transformed into practical application in the future, the Company will further consolidate its technical advantages and promote future business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Since the beginning of 2020, the combined effect of various factors such as the COVID-19 pandemic, the turmoil in the oil and gas industry and the global economy recession has brought unprecedented challenges for Hilong's operations. In the face of these difficulties, on one hand, the Company has reduced capital expenditures through various initiatives, and adopted various cost control and efficiency measures to effectively control costs and expenses, striving to maintain operational stability. On the other hand, Hilong actively adapts to change. Apart from strengthening its existing advantageous business and market, Hilong has increased its effort in market expansion and continued to explore the development opportunities of new business. The Company adhered to the principle of strategical bidding for new contracts, and selected to cooperate with customers with more payment certainty in priority, which further ensure that the Company's operations could be less affected by the external operating environment.

In terms of drill pipe business in overseas markets, the Company intends to focus on promoting high-end functional drill pipe products in the Middle East market, such as high-end drill pipes that meet the needs of different users, while placing emphasis on the promotion of drill pipe products in Russia and its surrounding areas. In terms of drill pipe business in domestic market, the Company will focus on products promotion to meet special needs from customers such as shale gas drilling in Sichuan province in the future. In respect of OCTG coating business, for overseas markets, the Company will continue to consolidate its leading position achieved in Russia and put more efforts in developing the coating business of bend pipes in the Middle East. Meanwhile, Hilong will actively explore coating demands for tubings, casings and gathering pipes in China.

In the oilfield services segment, the Group endeavors to establish presence in the domestic market as soon as possible. Leveraging on its experiences accumulated in the challenging projects in overseas markets over the years, the Company strives to provide domestic customers with high-level drilling and workover services. At the same time, the team will continue to seek the expansion of the technical service business, and plan to increase its effort in the promotion of comprehensive technical services in some favourable overseas markets such as Pakistan, Nigeria, Iraq and Ukraine, where drilling and workover business has been carried out.

In terms of the line pipe business, we will firmly grasp the market opportunities brought by the establishment of the National Petroleum and Gas Pipe Network Group and leverage on our deep industry knowledge accumulated in domestic market for years and established market position, to actively participate in the new wave of construction of oil and gas pipeline network in domestic market. The pipeline internal inspection business is becoming more mature with the development of inspection devices and data analysis system closely integrated with each other. The team also constantly develops advanced inspection technologies and explored niche markets. For example, the recent successful bid for the ultrasonic inspection project of Jiuquan product oil branch pipeline marks Hilong's breakthrough in the field of internal inspection utilizing ultrasonic-related technologies for multiple pipelines with challenging small diameters and complicated pipeline conditions without pig receiver and launcher.

The offshore engineering team will continue to pursue potential business opportunities brought by the Seven-year Action Plan and actively adjust business development strategies to change. Against the backdrop of turmoil in the international oil price, the offshore engineering services team will place more emphasis on the domestic offshore wind power industry going forward and continue to focus on domestic, the Southeast Asia and the Middle East markets.

EVENTS AFTER THE END OF THE INTERIM PERIOD

Save as disclosed in this report, there were no important events affecting the Company nor any of its subsidiaries since the end of Interim Period.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2020

	Note	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**3,007,727**	3,172,363
Right-of-use assets	*7*	**108,804**	120,268
Intangible assets	*7*	**234,463**	238,382
Investments accounted for using equity method		**42,386**	44,526
Deferred income tax assets		**236,059**	203,890
Other long-term assets		**81,801**	87,925
Total non-current assets		**3,711,240**	3,867,354
Current assets			
Inventories		**961,485**	860,109
Contract assets		**122,985**	185,777
Financial assets at fair value through profit or loss	*8*	**23,148**	–
Financial assets at fair value through other comprehensive income	*8*	**144,951**	170,645
Trade and other receivables	*8*	**2,225,024**	2,341,098
Prepayment		**161,234**	182,331
Current income tax recoverable		**24,283**	26,170
Restricted cash	*8*	**139,105**	124,329
Cash and cash equivalents	*8*	**841,294**	783,178
Total current assets		**4,643,509**	4,673,637
Total assets		**8,354,749**	8,540,991
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	*9*	**141,976**	141,976
Other reserves	*10*	**1,283,231**	1,283,815
Currency translation differences		**(91,054)**	(39,312)
Retained earnings		**2,234,643**	2,276,462
		3,568,796	3,662,941
Non-controlling interests		**45,748**	43,522
Total equity		**3,614,544**	3,706,463

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2020

	Note	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*8*	**157,452**	1,531,246
Lease liabilities	*8*	**14,987**	20,314
Deferred income tax liabilities		**43,335**	45,019
Deferred revenue		**49,773**	51,862
Total non-current liabilities		**265,547**	1,648,441
Current liabilities			
Trade and other payables	*8*	**1,058,965**	1,251,439
Contract liabilities		**71,203**	137,417
Current income tax liabilities		**47,835**	64,978
Borrowings	*8*	**3,280,861**	1,712,111
Derivative financial instruments	*8*	**538**	–
Lease liabilities	*8*	**15,197**	20,083
Deferred revenue		**59**	59
Total current liabilities		**4,474,658**	3,186,087
Total liabilities		**4,740,205**	4,834,528
Total equity and liabilities		**8,354,749**	8,540,991

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	(Unaudited) Six months ended 30 June 2020 RMB'000	2019 RMB'000
Revenue	*6(a)*	**1,556,920**	1,859,567
Cost of sales		**(1,056,489)**	(1,249,722)
Gross profit		**500,431**	609,845
Selling and marketing expenses		**(73,723)**	(69,062)
Administrative expenses		**(222,764)**	(245,978)
Net impairment losses on financial assets		**(63,525)**	(23,851)
Other gains – net	*11*	**11,145**	36,886
Operating profit		**151,564**	307,840
Finance income	*12*	**3,760**	1,646
Finance costs	*12*	**(174,084)**	(118,889)
Finance costs – net		**(170,324)**	(117,243)
Share of profit of investments accounted for using equity method		**419**	7,903
(Loss)/profit before income tax		**(18,341)**	198,500
Income tax expense	*13*	**(21,184)**	(48,078)
(Loss)/profit for the period		**(39,525)**	150,422
(Loss)/profit attributable to:			
Equity owners of the Company		**(41,819)**	148,742
Non-controlling interests		**2,294**	1,680
		(39,525)	150,422
(Losses)/earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	*14*	**(0.0247)**	0.0877
– Diluted	*14*	**(0.0247)**	0.0877

The above interim condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	(Unaudited) Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
(Loss)/profit for the period	**(39,525)**	150,422
Other comprehensive (loss)/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	**(584)**	–
Exchange differences on translation of foreign operations	**(51,810)**	31,289
Total comprehensive (loss)/income for the period	**(91,919)**	181,711
Attributable to:		
Equity owners of the Company	**(94,145)**	180,031
Non-controlling interests	**2,226**	1,680
	(91,919)	181,711

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		(Unaudited)						
		Capital and reserves attributable to equity owners of the Company						
	Note	Ordinary shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2019		141,976	1,139,627	2,120,614	(92,848)	3,309,369	212,641	3,522,010
Profit for the period		–	–	148,742	–	148,742	1,680	150,422
Other comprehensive income		–	–	–	31,289	31,289	–	31,289
Total comprehensive income for the period		–	–	148,742	31,289	180,031	1,680	181,711
Transactions with owners in their capacity as owners								
2013 Share Option Scheme	*10(a)*	–	93	–	–	93	–	93
Other addition		–	188	–	–	188	–	188
Dividends in respect of 2018	*15*	–	–	(14,970)	–	(14,970)	–	(14,970)
Total transaction with owners		–	281	(14,970)	–	(14,689)	–	(14,689)
As at 30 June 2019		141,976	1,139,908	2,254,386	(61,559)	3,474,711	214,321	3,689,032
As at 1 January 2020		**141,976**	**1,283,815**	**2,276,462**	**(39,312)**	**3,662,941**	**43,522**	**3,706,463**
Loss for the period		**–**	**–**	**(41,819)**	**–**	**(41,819)**	**2,294**	**(39,525)**
Other comprehensive loss		**–**	**(584)**	**–**	**(51,742)**	**(52,326)**	**(68)**	**(52,394)**
Total comprehensive loss for the period		**–**	**(584)**	**(41,819)**	**(51,742)**	**(94,145)**	**2,226**	**(91,919)**
As at 30 June 2020		**141,976**	**1,283,231**	**2,234,643**	**(91,054)**	**3,568,796**	**45,748**	**3,614,544**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	(Unaudited) Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Cash flow from operating activities		
Cash flow generated from operations	**93,569**	173,975
Income tax paid	**(63,846)**	(24,316)
Net cash generated from operating activities	**29,723**	149,659
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	**22,822**	12,941
Payments for property, plant and equipment	**(26,768)**	(92,506)
Net cash outflow arising from financial instruments	**(23,000)**	–
Purchases of intangible assets	**–**	(1,796)
Dividends received	**3,227**	2,894
Net cash used in investing activities	**(23,719)**	(78,467)
Cash flow from financing activities		
Proceeds from borrowings	**491,647**	284,124
Repayments of borrowings	**(351,248)**	(277,584)
Interest paid	**(79,035)**	(101,370)
Principal element of lease payments	**(10,576)**	(13,159)
Dividends paid to non-controlling interest	**(1,000)**	–
Cash (outflow)/inflow arising from security deposit for bank borrowings	**(1,210)**	270
Net cash generated from/(used in) financing activities	**48,578**	(107,719)
Net increase/(decrease) in cash and cash equivalents	**54,582**	(36,527)
Cash and cash equivalents at beginning of the period	**783,178**	661,738
Effects of exchange rate changes on cash and cash equivalents	**3,534**	176
Cash and cash equivalents at end of the period	**841,294**	625,387

The above interim condensed consolidated statement of cash flows 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, offshore engineering and offshore design 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 interim condensed consolidated financial information was presented in Renminbi thousand (RMB'000), unless otherwise stated. This interim condensed consolidated financial information was approved for issue on 28 August 2020.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting".

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, it should be read in conjunction with the annual financial statements for the year ended 31 December 2019, and any public announcements made by the Company during the interim reporting period.

During the period ended 30 June 2020, the Group reported a net loss of approximately RMB39.5 million and an operating cash inflow of approximately RMB29.7 million, decreasing by RMB189.9 million and RMB120 million respectively compared with the corresponding period in 2019. As at 30 June 2020, the Group's total borrowings amounted to RMB3,438.3 million, of which current borrowings amounted to RMB3,280.9 million, while its cash and cash equivalents amounted to RMB841.3 million.

As at 30 June 2020, the Company failed to repay USD165,114,400 (equivalent to approximately RMB1,168.9 million) of the Senior Notes due on 22 June 2020 (the "**2020 Notes**"), which constituted of an event of default and further triggered cross defaults of some other debts amounted to RMB1,572.4 million (collectively "**Cross-default Borrowings**"). The above events resulted in a total of RMB2,741.3 million of the Group's borrowings became immediately repayable on demand, therefore, the non-current part of all above-mentioned Cross-default Borrowings have been reclassified as current liabilities and included in current borrowings as at 30 June 2020 (Note 8). Up to the date of the approval of the interim condensed consolidated financial information by the board, an ad hoc committee has been formed by certain holders of the 2020 Notes and the Senior Notes originally due in September 2022 (the "**2022 Notes**") (collectively the "**Existing Notes**"), who held in aggregate more than 25% of the aggregate principal amount of the Existing Notes then outstanding (the "**Ad Hoc Committee**"); while the lenders of the Cross-default Borrowings have not exercised their rights to request the Group for immediate repayment under the cross-default provisions.

2 BASIS OF PREPARATION (continued)

Besides, the global economic dislocation and the ongoing pandemic have resulted in an abrupt reduction in the demand for oil. Oil companies, customers of the Group, have reduced their drilling activities and oil production, which in turn reducing demand for oilfield equipment and oilfield services and had significant impact on the Group's operating and performance.

The above conditions indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstance, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfill its financial obligations and continue as a going concern. The Group has formulated following plans and measures to mitigate the liquidity pressure and to improve its cash flows.

- the Group is under negotiating with the Ad Hoc Committee for the restructuring plan of the Existing Notes.

- the Group has been proactively communicating with banks and successfully renewed certain bank borrowings before their original due dates.

- the Group continues its efforts to implement measures to generating cash from new sales or service contracts, expediting collection of outstanding trade receivables and to further control of capital and operating expenditures in order to strengthen its working capital.

The directors have reviewed the Group's cash flow projection prepared by management, which covers a period of at least 12 months from 30 June 2020. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient funds to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2020. Accordingly, the directors are satisfied that it is appropriate to prepare the interim condensed consolidated financial information on a going concern basis.

Notwithstanding the plans and measures taken by management, material uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the followings:

- the lenders of the Cross-default Borrowings are not to exercise their rights to call for immediate repayment;

- alignment with the Ad Hoc Committee in respect of the restructuring plan of the Existing Notes;

- approval of the restructuring plan by the holders of the Existing Notes;

- on-going successful renewal/prolong of exiting borrowings before original due date and obtaining additional new sources of financing as and when needed; and

- the implementation of measures to improve sales, accelerate the collection of outstanding trade receivables, control costs and contain capital expenditures.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to reduce the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the interim condensed consolidated financial information.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, except for the adoption of new and amended standards as set out below.

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

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Amendments to HKFRS 3 'Business Combinations'
- Amendments to HKAS 1 and HKAS 8 'Definition of Material'
- Amendments to conceptual Framework of IASB
- HKAS 39, HKFRS 7 and Amendments to HKFRS 9 'Interest Rate Benchmark Reform'

Amendments to HKFRS 16 'Covid-19-Related Rent Concessions' has been applied for the accounting period beginning on 1 June 2020.

The adoption of these standards and the new accounting policies did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

(b) New standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

- HKFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2023.
- 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.
- HKAS 1 'Classification of liabilities as current or non-current', effective for the accounting period beginning on or after 1 January 2023.
- HKAS 37 'Onerous contracts – Cost of fulfilling a contract', effective for the accounting period beginning on or after 1 January 2022.
- Annual Improvements 'Annual Improvements to IFRS standard 2018-2020', effective for the accounting period beginning on or after 1 January 2022.
- HKAS 16 'Property, plant and equipment-proceeds before intended use', effective for the accounting period beginning on or after 1 January 2022.

(c) Changes effective for annual periods on or after a date to be determined and have not been early adopted by the Group:

Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture". The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred.

There are no other HKFRSs or HKASs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

4 ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to consolidated financial statements for the year ended 31 December 2019.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

5.2 Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expected to fund the future cash flow needs through internally generated cash flows from operations, collection of long-aged receivables, borrowings from financial institutions and issues of debt instruments or equity instruments.

During the period ended 30 June 2020, the Group reported a net loss of approximately RMB39.5 million and an operating cash inflow of approximately RMB29.7 million, decreasing by RMB189.9 million and RMB120 million respectively compared with the corresponding period in 2019. As at 30 June 2020, the Group's total borrowings amounted to RMB3,438.3 million, of which current borrowings amounted to RMB3,280.9 million, while its cash and cash equivalents amounted to RMB841.3 million.

As at 30 June 2020, the Company failed to repay USD165,114,400 (equivalent to approximately RMB1,168.9 million) of the 2020 Notes, which constituted of an event of default and further triggered cross defaults of some other debts amounted to RMB1,572.4 million. The above events resulted in a total of RMB2,741.3 million of the Group's borrowings became immediately repayable on demand, therefore, the non-current part of all above-mentioned Cross-default Borrowings have been reclassified as current liabilities and included in current borrowings as at 30 June 2020 (Note 8). Up to the date of the approval of the interim condensed consolidated financial information by the board, an ad hoc committee has been formed by certain holders of the 2020 Notes and the 2022 Notes, who held in aggregate more than 25% of the aggregate principal amount of the Existing Notes then outstanding; while the lenders of the Cross-default Borrowings have not exercised their rights to request the Group for immediate repayment under the cross-default provisions.

Besides, the global economic dislocation and the ongoing pandemic have resulted in an abrupt reduction in the demand for oil. Oil companies, customers of the Group, have reduced their drilling activities and oil production, which in turn reducing demand for oilfield equipment and oilfield services and had significant impact on the Group's operating and performance.

The above conditions indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

In view of such circumstance, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfill its financial obligations and continue as a going concern. The Group has formulated several plans and measures to mitigate the liquidity pressure and to improve its cash flows.

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 end of the period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	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 30 June 2020					
Borrowings and interest payables	**3,595,717**	**49,965**	**127,117**	**–**	**3,772,799**
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	**868,448**	**–**	**–**	**–**	**868,448**
Derivative financial instruments	**538**	**–**	**–**	**–**	**538**
Lease liabilities	**16,245**	**4,161**	**3,897**	**12,080**	**36,383**
	4,480,948	**54,126**	**131,014**	**12,080**	**4,678,168**
As at 31 December 2019					
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

5.3 Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and contract assets included in the interim condensed consolidated financial information represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

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 and will not be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables and time deposits. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The Group regularly monitors the credit history of the customers. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Credit risk (continued)

It has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

Trade receivables 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.

For other receivables, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and experience, and forward-looking information. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

5.4 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2020 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:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over – the – counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The following table sets out the Group's financial assets and liabilities that were measured at fair value as at 30 June 2020 and 31 December 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 30 June 2020				
Financial Assets				
Financial instruments-current				
Financial assets at fair value through profit or loss ("**FVPL**")	–	–	23,148	23,148
Financial assets at fair value through other comprehensive income ("**FVOCI**")	–	–	144,951	144,951
	–	–	168,099	168,099
Financial liabilities				
Derivative financial instruments-current				
Foreign exchange forward contracts	–	538	–	538

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation (continued)

	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

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the six months ended 30 June 2020:

	Financial instruments RMB'000
As at 1 January 2020	**170,645**
Additions	**168,535**
Deductions	**(170,645)**
Losses recognised in other comprehensive income	**(584)**
Gains recognised in profit or loss	**148**
As at 30 June 2020	**168,099**
Total gains for the period included in profit or loss under "Finance cost – net"	**148**
Total losses for the period included in other comprehensive income under "Changes in the fair value of financial assets at FVOCI"	**(584)**

5.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Cash and cash equivalents
- Restricted cash
- Trade and other receivables
- Trade and other payables
- Borrowings
- Lease liabilities

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

The corporate overheads are not considered as the business segment expenses during the six months ended 30 June 2020 and 2019 as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

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

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

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

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2020 and 2019 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**826,520**	841,400
Line pipe technology and services	**85,401**	200,870
Oilfield services	**431,839**	694,896
Offshore engineering services	**213,160**	122,401
	1,556,920	1,859,567

6 SEGMENT INFORMATION (continued)

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the six months ended 30 June 2020 is as follows:

	Six months ended 30 June 2020 (Unaudited)				
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	843,395	125,389	431,839	213,160	1,613,783
Inter-segment sales	(16,875)	(39,988)	–	–	(56,863)
Revenue from external customers	826,520	85,401	431,839	213,160	1,556,920
Revenue from contracts with customers:					
– at a point in time	554,780	12,398	28,716	–	595,894
– over time	223,400	73,003	403,123	213,160	912,686
	778,180	85,401	431,839	213,160	1,508,580
Revenue from other sources:					
– rental income	48,340	–	–	–	48,340
	826,520	85,401	431,839	213,160	1,556,920
Results					
Segment gross profit/(loss)	340,740	28,929	138,748	(7,986)	500,431
Segment profit/(loss)	179,665	(15,276)	45,028	(31,178)	178,239
Corporate overheads					(26,675)
Operating profit					151,564
Finance income					3,760
Finance costs					(174,084)
Share of profit of investments accounted for using equity method					419
Loss before income tax					(18,341)
Other information					
Depreciation of property, plant and equipment	55,641	15,285	70,338	29,638	170,902
Depreciation of right-of-use assets	2,032	880	7,795	1,183	11,890
Amortization of intangible assets	1,246	203	226	7	1,682
Capital expenditure	21,011	10,723	5,887	–	37,621

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 30 June 2020 (Unaudited)				
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	3,379,790	874,467	2,593,462	1,464,644	8,312,363
Investments accounted for using equity method					42,386
Total assets					8,354,749
Total liabilities (a)	3,864,587	344,877	505,379	25,362	4,740,205

(a) As at 30 June 2020, the Senior Notes of USD365,114,000 (31 December 2019: USD365,114,000) 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 for the six months ended 30 June 2019 is as follows:

	Six months ended 30 June 2019 (Unaudited)				
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	877,467	241,043	694,896	122,401	1,935,807
Inter-segment sales	(36,067)	(40,173)	–	–	(76,240)
Revenue from external customers	841,400	200,870	694,896	122,401	1,859,567
Revenue from contracts with customers:					
– at a point in time	660,905	12,493	113,466	–	786,864
– over time	118,535	188,377	581,430	122,401	1,010,743
	779,440	200,870	694,896	122,401	1,797,607
Revenue from other sources:					
– rental income	61,960	–	–	–	61,960
	841,400	200,870	694,896	122,401	1,859,567
Results					
Segment gross profit	299,623	62,988	246,337	897	609,845
Segment profit/(loss)	196,020	30,231	146,703	(34,116)	338,838
Corporate overheads					(30,998)
Operating profit					307,840
Finance income					1,646
Finance costs					(118,889)
Share of profit of investments accounted for using equity method					7,903
Profit before income tax					198,500
Other information					
Depreciation of property, plant and equipment	50,640	10,215	80,942	32,720	174,517
Depreciation of right-of-use assets	1,552	1,431	7,696	1,183	11,862
Amortization of intangible assets	1,202	286	85	444	2,017
Capital expenditure	86,519	9,930	31,029	–	127,478

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 30 June 2019 (Unaudited)				
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	3,077,165	824,012	2,854,952	1,441,818	8,197,947
Investments accounted for using equity method					44,822
Total assets					8,242,769
Total liabilities (a)	3,521,509	319,990	648,952	63,286	4,553,737

(a) As at 30 June 2019, the Senior Notes of USD310,000,000 (31 December 2018: USD310,000,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Russia, Central Asia and Europe	**508,368**	458,902
South and Southeast Asia	**321,215**	346,381
Middle East	**261,550**	167,304
The PRC	**214,609**	513,510
North and South America	**144,434**	246,751
Africa	**106,744**	126,609
Others	**–**	110
	1,556,920	1,859,567

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June 2020 RMB'000	31 December 2019 RMB'000
The PRC	**1,723,083**	1,752,126
Middle East	**453,448**	485,503
North and South America	**419,573**	454,449
South and Southeast Asia	**286,894**	307,567
Russia, Central Asia and East Europe	**268,223**	318,484
Africa	**199,773**	212,884
	3,350,994	3,531,013

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

	(Unaudited) Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
The PRC	**26,869**	18,751
North and South America	**3,542**	76,337
Russia, Central Asia and East Europe	**3,013**	28,860
Middle East	**2,678**	1,801
South and Southeast Asia	**1,176**	6,611
Africa	**343**	7
	37,621	132,367

7 PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

	(Unaudited)		
	Property, plant and equipment RMB'000	**Right-of-use assets** RMB'000	**Intangible assets** RMB'000
As at 1 January 2019			
Cost	4,621,254	164,758	227,029
Accumulated depreciation	(1,360,237)	(21,341)	(12,305)
Impairment provision	–	–	(2,097)
Net book amount	3,261,017	143,417	212,627
Six months ended 30 June 2019			
Opening net book amount	3,261,017	143,417	212,627
Additions	125,682	4,889	1,796
Disposals	(9,418)	–	–
Depreciation	(174,517)	(11,862)	(2,017)
Currency translation differences	26,511	–	4,744
Closing net book amount	3,229,275	136,444	217,150
As at 30 June 2019			
Cost	4,755,311	169,647	233,572
Accumulated depreciation	(1,526,036)	(33,203)	(14,325)
Impairment provision	–	–	(2,097)
Net book amount	3,229,275	136,444	217,150
As at 1 January 2020			
Cost	**4,733,273**	**166,202**	**256,278**
Accumulated depreciation	**(1,560,910)**	**(45,934)**	**(15,799)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**3,172,363**	**120,268**	**238,382**
Six months ended 30 June 2020			
Opening net book amount	**3,172,363**	**120,268**	**238,382**
Additions	**37,229**	**–**	**392**
Disposals	**(41,548)**	**–**	**–**
Depreciation	**(170,902)**	**(11,890)**	**(1,682)**
Currency translation differences	**10,585**	**426**	**(2,629)**
Closing net book amount	**3,007,727**	**108,804**	**234,463**
As at 30 June 2020			
Cost	**4,734,513**	**166,709**	**254,054**
Accumulated depreciation	**(1,726,786)**	**(57,905)**	**(17,494)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**3,007,727**	**108,804**	**234,463**

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Financial assets			
Financial assets at FVPL		**23,148**	–
Financial assets at FVOCI		**144,951**	170,645
Financial assets at amortised cost			
– Trade and other receivables	*(a)*	**2,225,024**	2,341,098
– Cash and cash equivalents		**841,294**	783,178
– Restricted cash		**139,105**	124,329
		3,373,522	3,419,250
Financial liabilities			
Borrowings	*(b)*	**3,438,313**	3,243,357
Derivative financial instruments		**538**	–
Trade and other payables	*(c)*	**1,058,965**	1,251,439
Lease liabilities *(Note 16(c))*		**30,184**	40,397
		4,528,000	4,535,193

(a) Trade and other receivables

	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Trade receivables *(i)*	**2,194,925**	2,191,645
– Due from related parties *(Note 16(c))*	**4,439**	6,140
– Due from third parties	**2,190,486**	2,185,505
Less: Provision for loss allowance of receivables (ii)	**(163,227)**	(105,269)
Trade receivables – net	**2,031,698**	2,086,376
Other receivables *(Note 16(c))*	**190,580**	251,976
Dividends receivable *(Note 16(c))*	**2,746**	2,746
Trade and other receivables – net	**2,225,024**	2,341,098

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Trade and other receivables (continued)

As at 30 June 2020 and 31 December 2019, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB10,347,000 (31 December 2019: RMB12,813,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2020 (Note 8(b)(i)).

(i) The aging of receivable is within 180 days, which is within the credit terms granted to customers.
The aging analysis of trade receivables based on invoice date, before provision for loss allowance, as at 30 June 2020 and 31 December 2019 was as follows:

	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Trade receivables, gross		
– Within 90 days	855,199	910,130
– Over 90 days and within 180 days	326,630	388,624
– Over 180 days and within 360 days	420,618	351,649
– Over 360 days and within 720 days	336,954	367,799
– Over 720 days	255,524	173,443
	2,194,925	2,191,645

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

	(Unaudited) Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Beginning of the period	(105,269)	(154,978)
Provision for receivables loss allowance	(63,667)	(23,432)
Write-off of loss allowance	5,709	79,385
End of the period	(163,227)	(99,025)

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings

	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Non-current		
Bank borrowings – secured *(i)*	**197,326**	211,517
Bank borrowings – unsecured	**–**	294
Senior Notes – unsecured *(ii)*	**–**	1,356,369
Less: Current portion of non-current borrowings	**(39,874)**	(36,934)
	157,452	1,531,246
Current		
Senior Notes and bank borrowings immediately repayable – unsecured *(ii)*	**2,710,935**	–
Senior Notes – unsecured *(ii)*	**–**	1,149,216
Bank borrowings – unsecured	**269,772**	418,661
Bank borrowings – secured *(i)*	**260,280**	107,300
Current portion of non-current borrowings	**39,874**	36,934
	3,280,861	1,712,111
	3,438,313	3,243,357

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June 2020 RMB'000	2019 RMB'000
Beginning of the period	**3,243,357**	3,070,615
Additions of borrowings – net	**491,647**	284,124
Repayments of borrowings	**(351,248)**	(277,584)
Amortization using the effective interest method	**13,415**	14,197
Exchange difference	**41,142**	3,100
End of the period	**3,438,313**	3,094,452

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings (continued)

(i) Bank borrowings – secured

The bank borrowings of RMB95,166,000 (31 December 2019: RMB67,822,000) were secured by certain bank deposits of the Group, with a carrying amount of RMB14,340,000 as at 30 June 2020 (31 December 2019: RMB13,130,000).

The borrowings of RMB13,769,000 (31 December 2019: RMB15,240,000) from financial institution were secured by trade receivables of RMB10,347,000 (31 December 2019: RMB12,813,000) of the Group as at 30 June 2020.

The bank borrowings of RMB151,345,000 (31 December 2019: RMB24,238,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 30 June 2020.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("SINO SURE", a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2020, USD33,545,000 were drawn down, out of which USD5,040,000 had been repaid in 2019 and the six months ended 30 June 2020. The remaining principals will be fully repayable from 2020 to 2025.

(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.

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. The 2020 Notes was listed on the Stock Exchange on 23 June 2017 and delisted on 22 June 2020 upon its maturity.

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, and USD165,114,000 in aggregate principal amount of 2020 Notes remained outstanding, which was due for repayment on 22 June 2020. 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 and subsequently suspended from trading on 22 June 2020 due to a cross default triggered by the default of 2020 Notes as described below.

As at 30 June 2020, the Company failed to repay USD165,114,400 of the 2020 Notes, which constituted of an event of default and further triggered cross defaults of some other debts amounted to RMB1,572.4 million. The above events resulted in a total of RMB2,741.3 million of the Group's borrowings become immediately repayable on demand, therefore, the non-current part of all above-mentioned Cross-default Borrowings have been reclassified as current liabilities and included in current borrowings as at 30 June 2020 (Note 2).

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other payables

	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Bills payable	**167,772**	233,171
Trade payables:	**501,816**	658,402
– Due to third parties	**495,921**	643,219
– Due to related parties *(Note 16(c))*	**5,895**	15,183
Other payables:	**175,544**	155,294
– Due to third parties	**101,752**	95,575
– Due to related parties *(Note 16(c))*	**73,792**	59,719
Staff salaries and welfare payables	**33,323**	42,314
Interest payables	**76,852**	33,364
Accrued taxes other than income tax	**80,342**	99,281
Dividends payable	**10,809**	11,809
Other liabilities	**12,507**	17,804
	1,058,965	1,251,439

As at 30 June 2020 and 31 December 2019, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

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

	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Trade payables, gross		
– Within 90 days	**302,809**	470,851
– Over 90 days and within 180 days	**162,537**	148,170
– Over 180 days and within 360 days	**25,423**	29,941
– Over 360 days and within 720 days	**10,537**	7,270
– Over 720 days	**510**	2,170
	501,816	658,402

9 ORDINARY SHARES

		(Unaudited)	
	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary shares (In RMB)
As at 1 January 2019 and 30 June 2019	1,696,438,600	169,643,860	141,975,506
As at 1 January 2020 and 30 June 2020	1,696,438,600	169,643,860	141,975,506

10 OTHER RESERVES

	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Statutory reserve	**109,010**	109,010
Merger reserve	**(496)**	(496)
Share options reserve *(a)*	**47,153**	47,153
Share premium	**1,174,080**	1,174,080
Financial assets at FVOCI	**(3,665)**	(3,081)
Capital redemption reserve	**702**	702
Capital reserve	**(43,553)**	(43,553)
	1,283,231	1,283,815

(a) Share options reserve

On 28 February 2011, the Company ratified and adopted an equity-settled "Pre-IPO share option plan" to recognize 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 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 granting date.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 granting date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(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 shares (unaudited) Six months ended 30 June	
		2020	2019
Beginning of the period	2.60	**29,500,300**	29,564,300
Current period change	2.60	**–**	–
End of the period	2.60	**29,500,300**	29,564,300

The share options outstanding (expiry date: 31 December 2020) as at 30 June 2020 and 2019 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2020	2019
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
	2.60	**29,500,300**	29,564,300

All of the options were exercisable as at 30 June 2020 and 2019. No options were exercised during the six months ended 30 June 2020 and 2019.

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) Pre-IPO share option plan (continued)

The fair value of the Pre-IPO share options 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 Pre-IPO share option plan	32,804

The significant inputs into the model were as follows:

	Granting date	
	In HKD	**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

There was no change in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme during the six months ended 30 June 2020 and 2019:

	Exercise price (per share in HKD)	**Outstanding shares (unaudited) Six months ended 30 June**	
		2020	2019
Beginning of the period	5.93	**16,058,100**	17,221,200
Current period change	5.93	**–**	–
End of the period	5.93	**16,058,100**	17,221,200

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2020 and 2019 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2020	2019
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
	5.93	**16,058,100**	17,221,200

All of the options were exercisable as at 30 June 2020 and 2019.

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

There was no expense recognised in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2020 for share options granted under the 2013 Share Option Scheme (six months ended 30 June 2019: RMB93,000), with a corresponding amount credited in share options reserve.

11 OTHER GAINS – NET

	(Unaudited) Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Exchange gains – net	**15,224**	36,190
Government grants	**1,253**	2,828
(Losses)/gains on disposal of property, plant and equipment – net	**(4,833)**	2,482
Others	**(499)**	(4,614)
	11,145	36,886

12 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**3,612**	1,646
– Fair value gains on financial assets at fair value through profit or loss	**148**	–
	3,760	1,646
Finance costs:		
– Interest expense on bank borrowings	**(135,078)**	(114,597)
– Interest expense on lease liability	**(860)**	(1,368)
– Fair value losses on foreign exchange forward contracts	**(538)**	–
– Exchange losses	**(37,608)**	(2,924)
	(174,084)	(118,889)
Finance costs – net	**(170,324)**	(117,243)

13 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current income tax	**54,004**	48,744
Deferred income tax	**(32,820)**	(666)
Income tax expense	**21,184**	48,078

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

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

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

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

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 35% prevailing in the places in which the Group operated for the six months ended 30 June 2020 (for the six months ended 30 June 2019: 15% to 35%).

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

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

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

Pursuant to Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate may be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the China holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2016 to 2018. Hilong Energy is in the process of renewal of the qualification during this period.

As at 30 June 2020, the permanently reinvested unremitted earnings totalled RMB1,520,400,000 (31 December 2019: RMB1,538,400,000).

14 (LOSSES)/EARNINGS PER SHARE

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

	(Unaudited) Six months ended 30 June	
	2020	2019
(Loss)/profit attributable to equity owners of the Company (RMB'000)	**(41,819)**	148,742
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,439**	1,696,439
Basic (losses)/earnings per share (RMB per share)	**(0.0247)**	0.0877

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

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

As at 30 June 2020, there were 29,500,300 (30 June 2019: 29,564,300) share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2020 and 2019, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 30 June 2020, there were 16,058,100 (30 June 2019: 17,221,200) share options outstanding related to 2014 Share Option Scheme. For the six months ended 30 June 2020 and 2019, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

15 DIVIDENDS

The dividend in respect of 2019 of HKD0.0200 (equivalent to RMB0.0180) per share, amounting to a total dividend of HKD33,928,000 (equivalent to RMB30,535,000) was withdrawn by the board of directors of the Company by way of written resolutions on 1 June 2020.

The dividend in respect of 2018 of HKD0.0100 (equivalent to RMB0.0088) per share, amounting to a total dividend of HKD16,964,000 (equivalent to RMB14,970,000), 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 six months ended 30 June 2019.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

16 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

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 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 six months ended 30 June 2020 and 2019, and balances arising from related party transactions as at 30 June 2020 and 31 December 2019.

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

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.
Hilong Group Limited

(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.

16 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this interim condensed consolidated financial information, during the six months ended 30 June 2020 and 2019, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Sales of goods or services:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**8,673**	6,892
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**2,592**	3,424
Shanghai Hilong Shine New Material Co., Ltd.	**294**	2,308
	11,559	12,624
Purchase of goods:		
Shanghai Hilong Shine New Material Co., Ltd.	**9,548**	6,129
Short-term rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**5,014**	5,014
Interest expenses on lease liabilities:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**11**	24
Shanghai Longshi Investment Management Co., Ltd.	**22**	80
	33	104
Rental income:		
Shanghai Hilong Shine New Material Co., Ltd.	**1,238**	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.

16 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2020 RMB'000	(Audited) 31 December 2019 RMB'000
Trade receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	2,806	3,795
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	1,456	2,345
Shanghai Hilong Shine New Material Co., Ltd.	177	–
	4,439	6,140
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	50,083	48,374
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	30,270	28,774
Shanghai Hilong Shine New Material Co., Ltd.	8,763	3,372
Hilong Group Limited	1,515	1,515
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	–	66,502
	90,631	148,537
Lease liabilities due to:		
Shanghai Longshi Investment Management Co., Ltd.	202	1,414
Beijing Huashi Hailong Oil Investments Co., Ltd.	80	539
	282	1,953
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	5,895	15,183
Other payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	28,733	31,588
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	28,705	–
Shanghai Longshi Investment Management Co., Ltd.	8,634	6,975
Beijing Huashi Hailong Oil Investments Co., Ltd.	6,782	12,218
Mr. Zhang Jun	938	938
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	–	8,000
	73,792	59,719
Dividends receivable:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	2,746	2,746

The receivables and payables from related parties were unsecured, non-interest bearing and repayable on demand.

OTHER INFORMATION

CHANGES IN DIRECTORS' INFORMATION

There were changes in information of directors since the date of the 2019 Annual Report of the Company as follows:

1. Mr. Yuan Pengbin retired as a non-executive Director and ceased to act as a member of the remuneration committee of the Company upon the conclusion of the 2020 annual general meeting on 19 June 2020;

2. Following the retirement of Mr. Yuan Pengbin, Mr. Shi Zheyan has been appointed as a member of the remuneration committee of the Company with effect from 19 June 2020; and

3. Mr. Cao Hongbo has been appointed as a non-executive Director of the Company with effect from 28 August 2020.

DISCLOSURE OF INTERESTS

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

As at 30 June 2020, 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 Securities and Futures Ordinance (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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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	885,081,000[(1)]	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800[(2)]	
	Beneficial owner	760,000	
		998,141,800	58.837%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000[(3)]	
	Beneficial owner	692,000	
		24,992,000	1.473%
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 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. 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' interest or short positions in the securities of the Company

As at 30 June 2020, 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	885,081,000(1)	52.17%
SCTS Capital Pte Ltd.	Nominee	1,018,758,800(1)(2)	60.05%
Standard Chartered Trust (Singapore) Limited	Trustee	1,018,758,800(1)(2)	60.05%
Ms. Gao Xia	Interest of spouse	998,741,800(3)	58.87%

Notes:

(1) 885,081,000 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.

PRE-IPO SHARE OPTION SCHEME

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

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

	Number of share options								
Category/ name of grantees	Outstanding as at 1 January 2020	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2020	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Directors									
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. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012 – 31 December 2020
In aggregate *(Note)*	3,350,000	–	–	–	3,350,000				
Grantees other than Directors									
In aggregate *(Note)*	26,150,300	–	–	–	26,150,300	2.60	–	1 January 2011	21 April 2012 – 31 December 2020
Total	29,500,300	–	–	–	29,500,300				

Note: Mr. Yuan Pengbin retired as a non-executive Director on 19 June 2020. Mr. Yuan Pengbin remains as an eligible participant under the Pre-IPO Share Option Scheme upon his retirement.

POST-IPO SHARE OPTION SCHEME

The Company adopted another share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. Further details of the Post-IPO Scheme are set out in note 10 to the interim condensed consolidated financial information and the circular of the Company dated 10 April 2013. 20% of the share options granted under the Post-IPO Scheme on 5 February 2014 has been vested on each anniversary of the date of grant until 5 February 2019. Details of movements in the options granted and outstanding under the Post-IPO Scheme during the Interim Period are as follows:

	Number of share options								
Category/ name of grantees	Outstanding as at 1 January 2020	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2020	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Employees of the Group other than Directors									
In aggregate	16,058,100	–	–	–	16,058,100	5.93	–	5 February 2014	5 February 2015 – 4 February 2024

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules throughout the Interim Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF INTERIM REPORT

The audit committee of the Company, consisting of Mr. WONG Man Chung Francis, Mr. WANG Tao (王濤) and Ms. ZHANG Shuman, has reviewed the interim results and the interim report for the Interim Period before the results and the report were submitted to the Board for approval.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDENDS

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

APPRECIATION

On behalf of the Board, I wish to express my sincere gratitude to our shareholders and business partners for their continued support, and to our employees for their dedication and hard work.

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

28 August 2020