海隆控股有限公司*

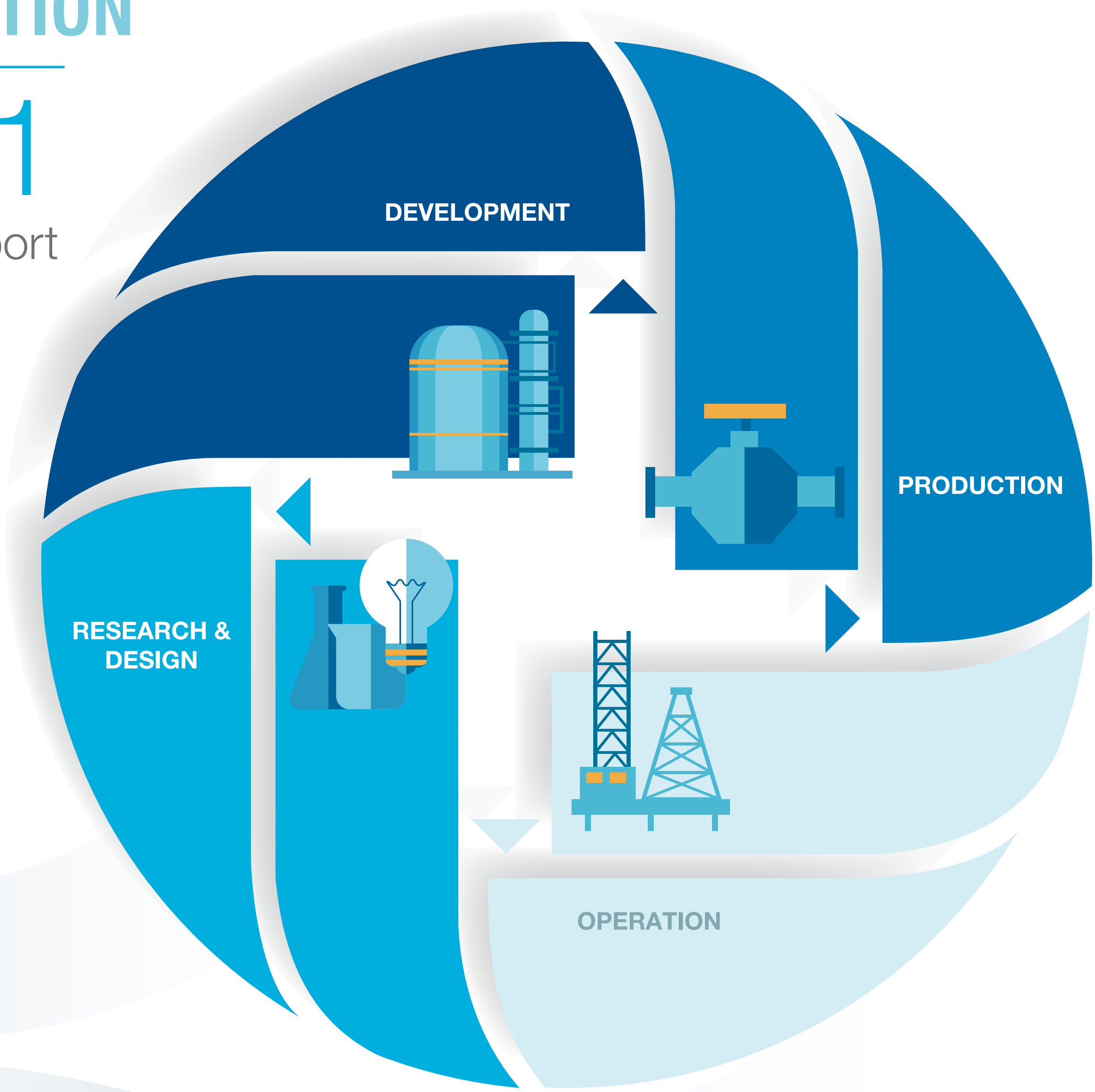
Hilong Holding Limited

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

TECHNOLOGICAL INNOVATION

2021

Interim Report



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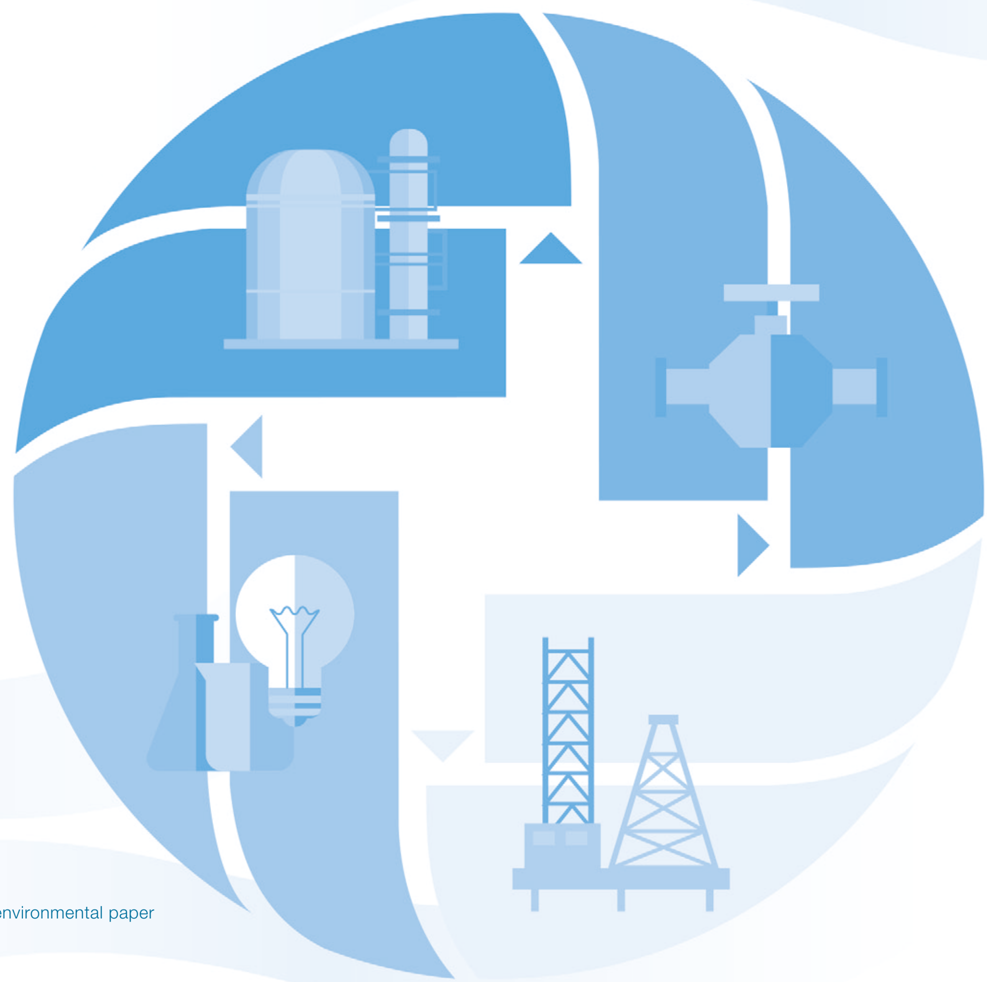

This Interim report is printed on environmental paper

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

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Sham Ying Man (岑影文)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

REGISTERED OFFICE

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PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER

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Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road East
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
17th Floor, Hopewell Centre
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

www.hilonggroup.com

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			
	2021		2020	
	RMB'000	**%**	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**423,544**	**27.0**	549,887	35.2
– Oil country tubular goods ("**OCTG**") coating services	**136,959**	**8.7**	142,636	9.2
– Drill pipe components	**19,560**	**1.2**	21,455	1.4
– Hardbanding	**16,215**	**1.0**	17,849	1.1
– Others	**63,081**	**4.0**	94,693	6.1
Subtotal	**659,359**	**41.9**	826,520	53.0
Line pipe technology and services				
– OCTG coating materials	**5,129**	**0.3**	7,368	0.5
– Oil and gas line pipe coating materials	**1,294**	**0.1**	1,896	0.1
– Oil and gas line pipe coating services	**76,749**	**4.9**	23,416	1.5
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**2,853**	**0.2**	11,172	0.7
– Concrete Weighted Coating ("**CWC**") services	**17,277**	**1.1**	35,095	2.3
– Pipeline inspection services	**34,990**	**2.2**	6,454	0.4
Subtotal	**138,292**	**8.8**	85,401	5.5
Oilfield services	**434,124**	**27.7**	431,839	27.8
Offshore engineering services	**339,300**	**21.6**	213,160	13.7
Total revenue	**1,571,075**	**100.0**	1,556,920	100.0

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

	Six months ended 30 June			
	2021		2020	
	RMB'000	**%**	RMB'000	%
The PRC	**489,998**	**31.2**	214,609	13.8
Russia, Central Asia and Europe	**344,387**	**21.9**	508,368	32.7
South and Southeast Asia	**322,521**	**20.5**	321,215	20.6
Middle East	**166,046**	**10.6**	261,550	16.7
North and South America	**163,246**	**10.4**	144,434	9.3
Africa	**76,423**	**4.9**	106,744	6.9
Others	**8,454**	**0.5**	–	–
Total	**1,571,075**	**100.0**	1,556,920	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue increased by RMB14.2 million, or 0.90%, from RMB1,556.9 million for the six months ended 30 June 2020 to RMB1,571.1 million for the Interim Period. Such increase was mainly due to the increase in revenue from the offshore engineering services segment and line pipe technology and services segment, partly offset by the decrease in revenue from the oilfield equipment manufacturing and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment decreased by RMB167.1 million, or 20.2%, from RMB826.5 million for the six months ended 30 June 2020 to RMB659.4 million for the Interim Period. Such decrease primarily reflected the decrease in revenue derived from drill pipe sales and drill pipe rental business.

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

	Six months ended 30 June	
	2021	2020
Sale of drill pipes		
– International market		
– volume *(tonnes)*	**14,446**	25,914
– unit price *(RMB/tonne)*	**19,061**	19,533
Subtotal *(RMB'000)*	**275,360**	506,167
– The PRC market		
– volume *(tonnes)*	**9,273**	2,623
– unit price *(RMB/tonne)*	**15,980**	16,668
Subtotal *(RMB'000)*	**148,184**	43,720
Total *(RMB'000)*	**423,544**	549,887

Revenue from the sales of drill pipes in the international market decreased by RMB230.8 million, or 45.6%, from RMB506.2 million for the six months ended 30 June 2020 to RMB275.4 million for the Interim Period. The decrease primarily reflected a decrease of 44.3% in the volume of drill pipes sold from 25,914 tonnes for the six months ended 30 June 2020 to 14,446 tonnes for the Interim Period. The decrease in the sales volume reflected the delayed demands by customers in overseas market as a consequence of the outbreak of COVID-19.

Revenue from sales of drill pipes in the PRC market increased by RMB104.5 million, or 238.9%, from RMB43.7 million for the six months ended 30 June 2020 to RMB148.2 million for the Interim Period. The increase primarily reflected a 253.5% increase in volume of drill pipes sold in the PRC market from 2,623 tonnes for the six months ended 30 June 2020 to 9,273 tonnes for the Interim Period and, to a lesser extent, a 4.1% decrease in average selling price sold in the PRC market from RMB16,668 per tonne for the six months ended 30 June 2020 to RMB15,980 per tonne for the Interim Period. The increase in the sales volume primarily reflected that the Company put more emphasis on cooperation with customers in PRC market resulting from the recovery of certain oil and gas companies in 2021. While the decrease in average selling price primarily reflected the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group decreased in the Interim Period as compared to that in the six months ended 30 June 2020.

Revenue from OCTG coating services decreased by RMB5.6 million, or 4.0%, from RMB142.6 million for the six months ended 30 June 2020 to RMB137.0 million for the Interim Period. The decrease mainly due to the delay in capital and operation spending of certain oil and gas companies in 2021.

Line pipe technology and services. Revenue from the line pipe technology and services segment increased by RMB52.9 million, or 61.9%, from RMB85.4 million for the six months ended 30 June 2020 to RMB138.3 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from the oil and gas line pipe coating services and pipeline inspection services. The increase in revenue derived from the oil and gas line pipe coating services and pipeline inspection services mainly reflected the Company's ability to undertake more projects and develop new customers.

Oilfield services. Revenue from the oilfield services segment increased by RMB2.3 million, or 0.5%, from RMB431.8 million for the six months ended 30 June 2020 to RMB434.1 million for the Interim Period. Such increase mainly reflected the recovery of the utilization rate of drilling rigs for the Interim Period as compared to the six months ended 30 June 2020.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period mainly represented the revenue of RMB250.3 million from the Bengal Project and RMB75.9 million from the offshore wind power construction project.

Cost of Sales/Services

Cost of sales/services increased by RMB92.6 million, or 8.8%, from RMB1,056.5 million for the six months ended 30 June 2020 to RMB1,149.1 million for the Interim Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB78.5 million, or 15.7%, from RMB500.4 million for the six months ended 30 June 2020 to RMB421.9 million for the Interim Period. Gross profit margin was 26.9% for the Interim Period, decreased by 5.2% compared to that for the six months ended 30 June 2020.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB30.2 million, or 41.0%, from RMB73.7 million for the six months ended 30 June 2020 to RMB43.5 million for the Interim Period. These expenses, amounted for 2.8% of the total revenue for the Interim Period, which are lower than the relevant ratio of 4.7% for the six months ended 30 June 2020.

Administrative Expenses

Administrative expenses decreased by RMB5.8 million, or 2.6%, from RMB222.8 million for the six months ended 30 June 2020 to RMB217.0 million for the Interim Period. Such decrease primarily reflected the decrease in staff costs.

Other Gain – Net

The Group recognized net gain of RMB55.0 million for the Interim Period and net gain of RMB11.1 million for the six months ended 30 June 2020. The net gain recognized for the Interim Period primarily reflected the proceeds of RMB65.0 million from disposal of subsidiaries and the proceeds of RMB17.4 million from disposal of property, plant and equipment, partly offset by an exchange loss of RMB35.5 million from the operating activities as a combined result of the depreciation of the United States Dollar. The net gain recognized for the six months ended 30 June 2020 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.

Finance Costs – Net

Net finance costs decreased by RMB28.8 million, or 16.9%, from RMB170.3 million for the six months ended 30 June 2020 to RMB141.5 million for the Interim Period. Such decrease primarily reflected (i) an exchange gain of RMB24.0 million from the financing activities resulting from the depreciation of United States Dollar, while for the six months ended 30 June 2020 the exchange loss was RMB37.6 million; (ii) partly offset by that the interest expense from bank borrowings increased from RMB135.1 million for the six months ended 30 June 2020 to RMB166.3 million for the Interim Period.

Profit/(Loss) before Income Tax

As a result of the foregoing, the Group recognized profit before income tax of RMB75.6 million for the Interim Period, comparing to the loss before income tax of RMB18.3 million for the six months ended 30 June 2020.

Income Tax Expense

The Group recognized income tax expense of RMB21.2 million for the six months ended 30 June 2020 and RMB33.3 million for the Interim Period. Effective tax rate was approximately −115.5% for the six months ended 30 June 2020 and 44.0% for the Interim Period. The increase of effective tax rate mainly reflected (i) the unbalanced distribution of profit among the Group's subsidiaries and (ii) the increase of tax losses of subsidiaries not recognised.

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

As a result of the foregoing, the Group recognized profit for the period attributable to equity owners of the Company of RMB40.2 million for the Interim Period, comparing to the loss for the period attributable to equity owners of the Company of RMB41.8 million for the six months ended 30 June 2020.

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 at the dates indicated as well as the turnover days of average inventory for the periods indicated:

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Inventory	**893,393**	1,001,255
Turnover days of inventory (in days)[1]	**149**	177

[1] Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 181 for the Interim Period, and by 366 for the year ended 31 December 2020. 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 decrease of inventories from 31 December 2020 to 30 June 2021 reflected the increased sales of oilfield services and improvement of inventory management.

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 2021 RMB'000	As at 31 December 2020 RMB'000
Trade receivables		
– Due from third parties	1,628,986	1,638,347
– Due from related parties	9,033	10,102
– Less: Provision for loss allowance of receivables	(203,487)	(204,516)
Trade receivables – net	1,434,532	1,443,933
Other receivables		
– Due from third parties	142,485	139,156
– Due from related parties	108,946	96,196
Other receivables	251,431	235,352
Dividends receivable	2,746	2,746
Total	1,688,709	1,682,031

The trade receivables of RMB6,880,000 (31 December 2020: RMB4,118,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2021.

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 2021 RMB'000	As at 31 December 2020 RMB'000
Trade receivables, net		
– Within 90 days	**623,434**	614,800
– Over 90 days and within 180 days	**202,825**	154,954
– Over 180 days and within 360 days	**299,420**	237,912
– Over 360 days and within 720 days	**240,266**	305,019
– Over 720 days	**68,587**	131,248
	1,434,532	1,443,933
Turnover days of trade receivables, net[(1)]	**166**	246

(1) Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 181 for the Interim Period, and by 366 for the year ended 31 December 2020. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The decrease in turnover days of trade receivables from 246 days as at 31 December 2020 to 166 days as at 30 June 2021 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was more active and accelerated during the Interim Period.

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

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
As at 1 January	**204,516**	105,269
Provision for receivables loss allowance	**29,162**	63,667
Reversal of loss allowance	**(4,000)**	–
Write-off of loss allowance	**(26,191)**	(5,709)
As at 30 June	**203,487**	163,227

Trade and Other Payables

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

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Bills payable	**9,364**	11,017
Trade payables		
– Due to related parties	**4,692**	18,083
– Due to third parties	**415,023**	426,206
Other payables		
– Due to related parties	**14,893**	26,331
– Due to third parties	**75,363**	140,779
Staff salaries and welfare payables	**30,521**	31,934
Interest payables	**31,909**	169,401
Accrued taxes (other than income tax)	**77,606**	59,538
Dividends payable	**10,496**	10,496
Other liabilities	**8,185**	13,008
	678,052	906,793

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 2021 RMB'000	As at 31 December 2020 RMB'000
Trade payables, gross		
– Within 90 days	**306,081**	287,653
– Over 90 days and within 180 days	**105,628**	133,833
– Over 180 days and within 360 days	**3,367**	16,630
– Over 360 days and within 720 days	**3,500**	4,524
– Over 720 days	**1,139**	1,649
	419,715	444,289
Turnover days of trade payables[1]	**68**	105

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 181 for the Interim Period, and by 366 for the year ended 31 December 2020. Average trade payables equals 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	
	2021	2020
	RMB'000	RMB'000
Net cash generated from operating activities	**293,932**	29,723
Net cash generated from/(used in) investing activities	**86,543**	(23,719)
Net cash (used in)/generated from financing activities	**(271,583)**	48,578
Net increase in cash and cash equivalents	**108,892**	54,582
Exchange (losses)/gains on cash and cash equivalents	**(2,998)**	3,534
Cash and cash equivalents at beginning of the period	**697,463**	783,178
Cash and cash equivalents at end of the period	**803,357**	841,924

As at 30 June 2021, cash and cash equivalents were mainly denominated in RMB, USD, RUB, AED and PKR.

Operating Activities

Net cash generated from operating activities for the Interim Period was RMB293.9 million, representing cash generated from operation of RMB313.8 million, offsetting by the income tax payment of RMB19.9 million.

Net cash generated from operating activities for the six months ended 30 June 2020 was RMB29.7 million, representing cash generated from operations of RMB93.6 million, offsetting by the income tax payment of RMB63.9 million.

Investing Activities

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

Net cash used in investing activities for the six months ended 30 June 2020 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.

Financing Activities

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

Net cash generated from financing activities for the six months ended 30 June 2020 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.

CAPITAL EXPENDITURES

Capital expenditures were RMB37.6 million and RMB70.2 million for the six months ended 30 June 2020 and the Interim Period, respectively. The increase in capital expenditures for the Interim Period was mainly due to the recovery of overseas business in the oilfield services segment.

INDEBTEDNESS

As at 30 June 2021, the outstanding indebtedness of RMB3,163.4 million was mainly denominated in USD and RMB. The following table sets forth the breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Non-current		
2024 Notes – secured	2,303,433	–
Bank borrowings – secured	186,731	25,764
Less: Current portion of non-current bank borrowings – secured	(81,745)	(2,090)
	2,408,419	23,674
Current		
Current portion of 2024 Notes – secured	139,666	–
Bank borrowings – secured	520,279	157,145
Bank borrowings – unsecured	13,320	19,352
2020 Notes	–	1,077,352
Cross-default Borrowings	–	1,845,902
Current portion of non-current bank borrowings – secured	81,745	2,090
	755,010	3,101,841
	3,163,429	3,125,515

As at 30 June 2021, bank borrowings of RMB3,020.1 million were obtained at fixed rate (31 December 2020: RMB2,962.3 million).

The bank borrowings of RMB22.5 million (31 December 2020: 47.5 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB1.1 million as at 30 June 2021 (31 December 2020: RMB2.4 million).

The borrowings of RMB13,816,000 (31 December 2020: RMB12,640,000) from financial institution were secured by trade receivables of RMB6,880,000 (31 December 2020: RMB4,118,000) of the Group as at 30 June 2021.

The bank borrowings of RMB114,558,000 (31 December 2020: RMB70,969,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 30 June 2021.

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 2021, USD33,545,000 were drawn down, out of which USD10,800,000 had been repaid in past years and the six months ended 30 June 2021. The remaining principal balance will be fully repayable from 2022 to 2025.

Reference is made to "Management Discussion and Analysis – Financial Review" of the annual report 2020 of the Company in relation to the Company's proposed restructuring ("**Debt Restructuring**") of the USD165,114,000 7.25% senior notes due 2020 (the "**2020 Notes**"), and the USD200,000,000 8.25% senior notes due 2022 (the "**2022 Notes**", and together with the 2020 Notes, the "**Existing Notes**") under the heading "Management Discussion and Analysis – Financial Review – Indebtedness." The Company announced on 16 December 2020 that they intended to enter into with holders of the Existing Notes the Restructuring Support Agreement ("**RSA**") to support the Debt Restructuring, which was expected to be implemented through a scheme of arrangement in the Cayman Islands (the "**Cayman Scheme**"). Details of the terms of the Debt Restructuring and the RSA are set forth in the Company's announcement dated 16 December 2020.

On 22 March 2021, the Grand Court of the Cayman Islands (the "**Court**") directed that a meeting of Cayman Scheme creditors ("**Cayman Scheme Meeting**") be convened for the purposes of considering and, if thought fit, approving the Cayman Scheme (with or without modification, addition or condition approved or imposed by the Court). The Cayman Scheme was approved by the Cayman Scheme creditors on 5 May 2021 and the Court made a verbal order to sanction the Scheme ("**Scheme Sanction Order**") on 6 May 2021. For further details, please refer to the Company's announcements dated 5 May 2021 and 6 May 2021, respectively.

Following the Scheme Sanction Order, on 18 May 2021, the Company announced that the Debt Restructuring was completed, the Existing Notes had been cancelled and the new notes representing the USD379,135,000 9.75% senior secured notes due 2024 ("**New Notes**") had been issued by the Company. The Company further announced that the New Notes had been listed on the Singapore Exchange Securities Trading Limited on 20 May 2021. Accordingly, the Company made an application to the Stock Exchange for the withdrawal of the listing of the 2022 Notes and the 2022 Notes had been delisted with effect from 27 May 2021. As at 30 June 2021, there were no Existing Notes in issue.

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 ("**FVPL**"). Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The gearing ratios as at 30 June 2021 and 31 December 2020 are as follows:

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Total borrowings	**3,163,429**	3,125,515
Add: Lease liabilities	**20,854**	27,981
Less: Cash and cash equivalents	**(803,357)**	(697,463)
Restricted cash	**(41,236)**	(77,616)
Financial assets at FVPL	**–**	(23,377)
Net debt	**2,339,690**	2,355,040
Total equity	**3,114,671**	3,118,298
Total capital	**5,454,361**	5,473,338
Gearing ratio	**42.90%**	43.03%

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 20.3% appreciation of RMB against the USD from 21 July 2005 to 30 June 2021. 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 46.3% and 43.8% of the total revenue of the Company for the six months ended 30 June 2020 and the Interim Period, respectively.

STAFF AND REMUNERATION POLICY

As at 30 June 2021, the total number of full-time employees employed by the Group was 2,853 (31 December 2020: 2,820). The following table sets forth the number of the Group's fulltime employees by area of responsibility as at 30 June 2021:

On-site workers	1,772
Administrative	461
Engineering and technical support	405
Research and development	97
Sales, marketing and after-sales services	89
Company management	29
	2,853

Employee costs excluding the Directors' remuneration totalled RMB272.4 million for the Interim Period.

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

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

BUSINESS REVIEW

In 2021, the international crude oil price rebounded significantly, and the workload and orders within the oil and gas industry increased accordingly. However, due to the combined effects such as the recurrent epidemic, sluggish economic recovery, rising prices of bulk raw materials and the impact of the tide of new energy, the full recovery of the global oil and gas industry continued to face multiple challenges. Despite the adverse external market environment, the Company generally maintained stable operations in the first half of 2021. During the Interim Period, the Company recorded a total revenue of RMB1,571 million, which is generally on par with the first half of 2020 but represents an increase by approximately 50% as compared with the second half of 2020. Supported by the gradual recovery of orders, the revenue from oilfield services, line pipe technology and services as well as offshore engineering services increased in varying degrees. While actively exploring the market and pursuing orders, the Company stabilized its daily operations by reducing capital expenditures and costs and enhancing efficiency. Meanwhile, the Company placed great emphasis on cash flow management, took active management measures for accounts receivable and inventory, and prioritized the co-operations with customers with better payment history, so as to provide sound operation support for the Company in the severe market environment. During the Interim Period, Hilong completed the debt restructuring successfully, providing a relatively eased external environment for business reconstruction and development in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS

Oilfield Equipment Manufacturing and Services

During the Interim Period, the oilfield equipment manufacturing and services segment generated a revenue of RMB659 million, reflecting a 20% decline compared to that of the first half of 2020. Affected by factors such as the epidemic and industry fluctuations, the global oil and gas drilling activities have yet to get back on track. Consequently, the demand for oilfield equipment within the industry has not recovered. The orders of the Company's drill pipe and OCTG coating business decreased in both domestic and foreign markets. In the course of industry recovery, the time-lag factor of capital expenditure was significant. Upstream customers still remained cautious on the procurement of oilfield equipment such as drilling tools and coating. The order volume has recovered as compared with the second half of 2020, but it had not resumed to the normal level. Customers were also more price sensitive and tended to purchase more basic products and services. At the same time, some competitors adopted low pricing strategies, resulting in a reduction of overall price level in the industry. In addition, the rise of raw materials prices and transportation costs and the extension of transportation cycle due to the epidemic have exerted certain pressure on the profitability of the Company's oilfield equipment segment in the short term. Over the years, the drill pipe and OCTG coating business of Hilong has been focusing on providing customized high-end products and services, and it always adheres to the development strategy with quality and continuous technological innovation as the core driving force. Given the current market environment, the Company will actively adjust its strategy to adapt to the market and cater for the needs of different customers while ensuring the quality of products and services. Meanwhile, the Company will actively explore new business areas such as applying OCTG coatings to ground gathering pipes and customized pipes. Such efforts have been recognised by customers in some markets.

Oilfield Services

During the Interim Period, the oilfield services segment recorded a total revenue of RMB434 million, which is generally on par with the corresponding period in 2020. As a result of the combined effects of various factors such as industry fluctuation, the recurrent epidemic, impact of new energy industry and delay of transmission between the upstream and downstream industries, the recovery of oil services industry remained sluggish in 2021. Although Hilong is deeply engaged in the overseas oil services markets, it continued to face the dual pressure of slow recovery of workload and increased labor and operating costs under the epidemic since the beginning of the year. Under the complex and severe market environment, the Company strengthened its efforts in market development by coordinating all business departments of drilling and workover services, technical services and trading services, gave full play to the synergy between various businesses, and ensured the stability of the overall operation of the segment. The utilization rate of the rig fleet was effectively improved by the drilling and workover services team and the price was raised to an acceptable level in the first half of the year. The drilling and workover services teams also actively participated in the tendering of turnkey projects at the same time. During the Interim Period, the comprehensive operation performance, project management and customer satisfaction of several teams continued to improve. For example, Hilong provided workover services for UkrGasVydobuvannya (UGV) in Ukraine and won first place in the comprehensive evaluation of suppliers multiple times. In Iraq, the safe and efficient operation performance of HL99, which provided services to BP IRAQ N.V., ranked first among all the teams. The technical service team has successfully operated various businesses such as cuttings treatment service, mud service, directional well service, cementing service and casing running service, and will further develop more diversified businesses including well completion and stimulation, drilling speed and efficiency improvement and oilfield environmental protection, so as to gradually reduce the dependence on drilling and workover business. The trading service business achieved a breakthrough in the sales of other products in addition to tubing and casing. Furthermore, Hilong also completed the qualification certification of a number of sizable international customers, getting well-prepared for exploring new market opportunities.

Line Pipe Technology and Services

During the Interim Period, the line pipe technology and services segment recorded a total revenue of RMB138 million, reflecting a significant increase of 62% compared to the first half of 2020. The Company firmly captured its core clients in anti-corrosion pipeline coating and concrete-weighted coating business, and obtained a number of major projects from sizable customers during the Interim Period. For example, the Company entered into a series of contracts with a new customer, namely Zhejiang Petroleum & Chemical Co., Ltd., for the provision of anti-corrosion pipeline coating and concrete-weighted coating services. Hilong and Baoshan Steel Co., Ltd.* (寶山鋼鐵股份有限公司) have maintained close cooperation for years and signed a number of sales contracts in the first half of 2021. The Company continued to explore the market and strive for new customers and orders. For instance, during the Interim Period, it was successively shortlisted in the supplier system of BASF (China) Co., Ltd.* (巴斯夫(中國)有限公司) and the annual service supplier system of Shanxi Yanchang Petroleum (Group) Co., Ltd.* (陝西延長石油(集團)有限責任公司), and passed the audit and certification of Total, making preliminary preparations to further develop the international and domestic business. The pipeline inspection services developed rapidly during the Interim Period. The Company signed multiple contracts in the domestic market and actively promoted the layout of overseas business. Various types and sizes of inspection equipment have been successfully developed or put into use, further enhancing the strength of the Company.

Offshore Engineering Services

During the Interim Period, the overall operation of the offshore engineering services segment was stable with all projects operating smoothly. A total revenue of RMB339 million was recorded, representing a significant increase of 59% compared to the corresponding period in 2020. Following the excellent completion of offshore pipeline construction during the first dry season in Bangladesh, in the second dry season of 2021, the Company successfully completed the deep excavation and backfilling of the new channels and pipeline repair with world-class difficulty in the face of multiple challenges such as difficult construction technology and increased uncertainty of construction period caused by the epidemic. The comprehensive strength of Hilong's offshore engineering services was highly recognized by all parties involved in the project. This segment also made a breakthrough in expanding beyond the oil and gas industry and successfully tapped into the offshore wind power construction market. Hilong's offshore engineering services segment provided vessel leasing and operations-related services for the offshore wind power construction project of 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 smooth progress, making continuous and stable contribution to cash flow. In addition, Hilong also made full use of the resources of its partner to participate in a vessel leasing service project in Russia. The required lifting and pipe-laying vessel has been successfully mobilized and put into operations.

Technology Research and Development

The Company always attaches great importance to investing in technology research and development ("**R&D**") and the transformation of R&D results. During the first half of 2021, all business segments of the Company have either established new R&D projects or achieved milestone results. In terms of drill pipe business, drill pipes with special buckle such as HLIST39/HLIST54 have passed certifications, laying a foundation for entering the high-end market in the Middle East. The Company also took initiative in developing titanium alloy drill pipes, completing product optimization of HL125S sulfur-resistant drill pipes, and perfecting the research on durability of high-strength HLU165 drill pipes. Significant progress has been achieved in promoting the technical development of drill pipe with electronic tag and drilling tool information management systems, where the Company has placed great emphasis on. In respect of OCTG coating, the tests on the equipment and the process development for the internal coating of large-diameter special-shaped tubes customized for the Middle East market have been successfully launched, while the Company focused on enhancing the development of internal coatings and processes for oil and gas heat exchangers. The R&D of anti-scaling and anti-wax coatings and high temperature resistant powder coatings for oil pipes has also made remarkable accomplishments. As for the pipeline inspection business, the Company completed the transformation of 12/16/20-inch deformation detection equipment and 22-inch composite detector; the design, processing and assembly test of 16/28-inch composite detector; installation, debugging and testing of 40-inch composite detector. The Company will continue to consolidate its technological advantages, adhere to the development strategy of technological innovation, and drive future development with technology.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

With respect to the international market in the second half of 2021, despite the lingering impact of the epidemic, crude oil prices remain high, which will inevitably drive further growth in industry investment and workload. The global oil and gas industry is on track to gradual recovery, while soaring bulk raw material prices have receded. Product/service sales prices have also increased following a period of market adjustment, and the oilfield equipment and oilfield services markets will continue to sustain the revival. In terms of the domestic market, China has entered the third year in implementing the seven-year action plan for the oil and gas industry which spans from 2019 to 2025 and China's crude oil production has been expanding steadily, while natural gas production capacity has recorded continuous rapid growth. The recent convening of the "Work Promotion Meeting for Vigorously Increasing Oil and Gas Exploration and Development in 2021" showed that the country will continue to increase oil and gas exploration and development and investment, which indicated that China's domestic oil and gas exploration and development activities will continue their buoyancy. Meanwhile, China's goal of "striving to achieve carbon peaks by 2030 and carbon neutrality by 2060" will also facilitate the country's oil and gas industry to further intensify domestic natural gas development. In a nutshell, the growth of the domestic and international oil and gas markets is promising. As a leader in multiple segments, Hilong will make every effort to grasp market opportunities brought by the recovery of global oil and gas industry and the constant expansion of domestic oil and gas exploration and development.

In terms of the domestic drill pipes market, Hilong will differentiate marketing strategies for different customers, while focusing on the development and promotion of high-end special drilling tools suitable for the exploitation of unconventional oil and gas resources. In the North American market, the Company will focus on maintaining our existing strategic partners, including Ensign Drilling Inc., and explore new large-scale customers in the region to obtain stable orders. The Company will actively seek high-quality and economical sources of pipe materials in Russia and its neighboring markets to reduce manufacturing costs, while focusing on following up with core large-scale customers and increasing the efforts in promoting high-end drilling tools products. In July 2021, the Company entered into a contract with Rosneft Oil Company ("**Rosneft**"), an integrated oil and gas company in Russia, pursuant to which, the Company will supply Rosneft with approximately 4,500 tons of drill pipes by the end of 2022. The total contract amount was approximately RMB86.9 million. As for the Middle East market, while following up with existing customers and executing orders for the new year, Hilong will strive to realize the application and promotion of new products in the region, including drill pipes with special buckle, high-strength sulfur resistant drill pipes and drill pipes with electronic tag.

For the OCTG coating business, the Company will focus on responding to the needs of our core customers in the domestic market, while diving deeper into the market potential by exploring and incubating demands from new application areas, such as shale gas. In the overseas market, the Company will strengthen its sales team in the North American market to acquire more quality orders from large and stable customers and improve the overall production efficiency and operation of the plant. In Russia and its neighboring markets, Hilong will begin to operate the local production line for coating materials as soon as practicable to further improve our ability to quickly respond to customers' individual needs. In the Middle East market, the Company will continue to follow up on the business of coating applied on bend pipes and fittings in the coming year, and actively explore the business of coating applied inside large-size shaped pipes.

For the oil service business, Hilong will make every effort to expand into new markets and acquire new customers, and strive to make breakthroughs in China, Russia, the Middle East and Africa, and spare no effort to increase the utilization rate of existing drilling and workover rigs; strengthen market development capabilities and develop turnkey projects and technical services, as well as facilitate foreign cooperation, seek expansion and transformation on the basis of existing mature businesses. The Company is actively obtaining the qualification certification of core domestic customers, and is committed to providing domestic customers with diversified high-end oilfield services including drilling and workover services and technical services, while effectively grasping market opportunities brought by the new round of development in the domestic oil and gas industry. On one hand, trading services will actively seek and develop partners in various markets and strive for more business breakthroughs beyond tubing and casing; on the other hand, it will seek to form synergies with other businesses to facilitate drilling and workover services, technical services and external cooperation to further consolidate customer relationships.

MANAGEMENT DISCUSSION AND ANALYSIS

The line pipe technology and services segment will focus on exploring the market opportunities brought by the new peak of domestic oil and gas pipeline network construction, and proactively develop overseas projects. While consolidating its domestic business, pipeline inspection service will also actively consider possibilities for overseas expansion. Currently, negotiations with potential partners in the Middle East have commenced, and preliminary work such as obtaining qualifications is planned to initiate promptly.

For the offshore engineering service segment, focus for the second half of the year will be placed on the operation of the wind power project and the Russian project, and the preparation work for the construction of the Bangladesh project in the third dry season. The offshore engineering segment has formed positive and effective market cooperation with CNOOC Limited ("**CNOOC**"), our core domestic customer, and will further maintain such cooperation and capture the potential market opportunities brought by CNOOC's "seven-year action plan". In view of the volatile global oil and gas industry, the Company will actively source other customers, and regard the offshore wind power business as its key focus. Furthermore, the Company will leverage on Ocentra Offshore Pte. Ltd., the joint venture platform to consolidate its position in the Southeast Asian market, and pay close attention to opportunities in the Middle Eastern market.

DISPOSAL OF A SUBSIDIARY

On 18 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) ("**Seller**"), Shanghai Jintang Industry Co., Ltd.* (上海金鏜實業有限公司) ("**Purchaser**") and Shanghai Hilong Special Steel Pipe Co., Ltd.* (上海海隆特種鋼管有限公司) ("**Target Company**") entered into an equity transfer agreement, pursuant to which the Seller agreed to dispose of, and the Purchaser agreed to acquire, 70% equity interest in the Target Company for a total consideration of RMB103,480,000. Following the completion of the disposal in June 2021, the Company currently holds 30% equity interests in the Target Company, and the Target Company has ceased to be a subsidiary of the Company and the financial information of the Target Company is no longer consolidated into the Group's consolidated financial statements. For further details, please refer to the Company's announcement dated 18 June 2021.

Save as disclosed above, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures or significant investment or updates during the Interim Period.

EVENTS AFTER THE END OF THE INTERIM PERIOD

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2021

	Note	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**2,438,601**	2,619,526
Right-of-use assets	*7*	**55,200**	105,441
Intangible assets	*7*	**238,367**	239,676
Investments accounted for using equity method		**92,787**	50,888
Deferred income tax assets		**181,306**	190,692
Other long-term assets		**56,059**	70,816
Total non-current assets		**3,062,320**	3,277,039
Current assets			
Inventories		**893,393**	1,001,255
Contract assets		**248,154**	160,886
Financial assets at fair value through profit or loss	*8*	**–**	23,377
Financial assets at fair value through other comprehensive income	*8*	**141,526**	89,629
Trade and other receivables	*8*	**1,688,709**	1,682,031
Prepayment		**281,108**	336,713
Current income tax recoverable		**28,966**	24,348
Restricted cash	*8*	**41,236**	77,616
Cash and cash equivalents	*8*	**803,357**	697,463
Total current assets		**4,126,449**	4,093,318
Total assets		**7,188,769**	7,370,357
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	*9*	**141,976**	141,976
Other reserves	*10*	**1,291,970**	1,289,746
Currency translation differences		**(378,469)**	(329,656)
Retained earnings		**2,012,615**	1,972,406
		3,068,092	3,074,472
Non-controlling interests		**46,579**	43,826
Total equity		**3,114,671**	3,118,298

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2021

	Note	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*8*	**2,408,419**	23,674
Lease liabilities	*8*	**16,576**	17,775
Deferred income tax liabilities		**42,173**	37,815
Deferred revenue		**39,760**	48,289
Total non-current liabilities		**2,506,928**	127,553
Current liabilities			
Trade and other payables	*8*	**678,052**	906,793
Contract liabilities		**92,140**	65,742
Current income tax liabilities		**37,631**	39,865
Borrowings	*8*	**755,010**	3,101,841
Lease liabilities	*8*	**4,278**	10,206
Deferred revenue		**59**	59
Total current liabilities		**1,567,170**	4,124,506
Total liabilities		**4,074,098**	4,252,059
Total equity and liabilities		**7,188,769**	7,370,357

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 2021

	Note	(Unaudited) Six months ended 30 June 2021 RMB'000	2020 RMB'000
Revenue	*6(a)*	**1,571,075**	1,556,920
Cost of sales		**(1,149,127)**	(1,056,489)
Gross profit		**421,948**	500,431
Selling and marketing expenses		**(43,482)**	(73,723)
Administrative expenses		**(217,007)**	(222,764)
Net impairment losses on financial assets		**(25,308)**	(63,525)
Other gains – net	*11*	**55,018**	11,145
Operating profit		**191,169**	151,564
Finance income	*12*	**1,161**	3,760
Finance costs	*12*	**(142,694)**	(174,084)
Finance costs – net		**(141,533)**	(170,324)
Share of profit of investments accounted for using equity method		**26,013**	419
Profit/(loss) before income tax		**75,649**	(18,341)
Income tax expense	*13*	**(33,289)**	(21,184)
Profit/(loss) for the period		**42,360**	(39,525)
Profit/(loss) attributable to:			
Equity owners of the Company		**40,209**	(41,819)
Non-controlling interests		**2,151**	2,294
		42,360	(39,525)
Earnings/(losses) per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	*14*	**0.0237**	(0.0247)
– Diluted	*14*	**0.0237**	(0.0247)

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 2021

	(Unaudited) Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) for the period	**42,360**	(39,525)
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Changes in the fair value of financial assets at fair value through other comprehensive income	**578**	(584)
Exchange differences on translation of foreign operations	**(48,571)**	(51,810)
Total comprehensive loss for the period	**(5,633)**	(91,919)
Attributable to:		
Equity owners of the Company	**(8,026)**	(94,145)
Non-controlling interests	**2,393**	2,226
	(5,633)	(91,919)

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 2021

		(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 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
As at 1 January 2021		**141,976**	**1,289,746**	**1,972,406**	**(329,656)**	**3,074,472**	**43,826**	**3,118,298**
Profit for the period		**–**	**–**	**40,209**	**–**	**40,209**	**2,151**	**42,360**
Other comprehensive loss		**–**	**578**	**–**	**(48,813)**	**(48,235)**	**242**	**(47,993)**
Total comprehensive loss for the period		**–**	**578**	**40,209**	**(48,813)**	**(8,026)**	**2,393**	**(5,633)**
Transactions with owners in their capacity as owners								
Disposal of subsidiaries		**–**	**1,646**	**–**	**–**	**1,646**	**360**	**2,006**
Total transaction with owners		**–**	**1,646**	**–**	**–**	**1,646**	**360**	**2,006**
As at 30 June 2021		**141,976**	**1,291,970**	**2,012,615**	**(378,469)**	**3,068,092**	**46,579**	**3,114,671**

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 2021

	(Unaudited) Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Cash flow from operating activities		
Cash flow generated from operations	**313,795**	93,569
Income tax paid	**(19,863)**	(63,846)
Net cash generated from operating activities	**293,932**	29,723
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	**6,548**	22,822
Payments for property, plant and equipment	**(51,491)**	(26,768)
Net cash inflow/(outflow) arising from financial instruments	**23,000**	(23,000)
Purchases of intangible assets	**(767)**	–
Net proceeds from disposal of subsidiaries of the Group	**106,480**	–
Dividends received	**2,773**	3,227
Net cash generated from/(used in) investing activities	**86,543**	(23,719)
Cash flow from financing activities		
Proceeds from borrowings	**477,250**	491,647
Repayments of borrowings	**(438,511)**	(351,248)
Interest paid	**(277,636)**	(79,035)
Principal element of lease payments	**(18,497)**	(10,576)
Dividends paid to non-controlling interest	**–**	(1,000)
Acquisition of non-controlling interests	**(15,800)**	–
Cash inflow/(outflow) arising from security deposit for bank borrowings	**1,611**	(1,210)
Net cash (used in)/generated from financing activities	**(271,583)**	48,578
Net increase in cash and cash equivalents	**108,892**	54,582
Cash and cash equivalents at beginning of the period	**697,463**	783,178
Effects of exchange rate changes on cash and cash equivalents	**(2,998)**	3,534
Cash and cash equivalents at end of the period	**803,357**	841,294

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021.

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 2021 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 2020, and any public announcements made by the Company during the interim reporting period.

As at 31 December 2020, the Senior Notes of USD165 million (equivalent to RMB1,077 million) (the "**2020 Notes**") was not repaid in accordance with the repayment schedule pursuant to its offering document. This constituted an event of default, and resulted in cross default of the Senior Notes originally due in September 2022 (the "**2022 Notes**") and other borrowings (collectively "**Cross-default Borrowings**").

The Company successfully completed the restructuring of the 2020 Notes and the 2022 Notes (the "**Proposed Restructuring**") on 18 May 2021 (the "**Restructuring Effective Date**"). The 2020 Notes and 2022 Notes were cancelled, and the new notes (the "**2024 Notes**") have been issued and listed on the Singapore Exchange Securities Trading Limited on 20 May 2021 (Note 8(b)).

Before 18 May 2021, The Group timely repaid the principle and interest of existing bank borrowings according to their contractual repayment dates and was able to renew the existing borrowings upon maturity. None of the banks had exercised their rights to require the Group for immediate repayment of the borrowings prior to their contractual repayment date.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2020, 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 2021:

		Effective for annual periods beginning on or after
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021

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 2021 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
HKAS 1 and HKAS 28 (Amendments)	Presentation of financial statements, accounting policies, changes in accounting estimates and errors	1 January 2023
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

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 2020.

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 2020.

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.

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 2021					
Borrowings and interest payables	**1,019,658**	**281,698**	**2,878,173**	**–**	**4,179,529**
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	**538,016**	**–**	**–**	**–**	**538,016**
Lease liabilities	**6,659**	**5,413**	**2,923**	**9,920**	**24,915**
	1,564,333	**287,111**	**2,881,096**	**9,920**	**4,742,460**
As at 31 December 2020					
Borrowings and interest payables	3,419,596	24,087	236	–	3,443,919
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	645,920	–	–	–	645,920
Lease liabilities	10,965	6,727	5,051	10,018	32,761
	4,076,481	30,814	5,287	10,018	4,122,600

5 FINANCIAL RISK MANAGEMENT (continued)

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.

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 2021 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.

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation (continued)

The following table sets out the Group's financial assets and liabilities that were measured at fair value as at 30 June 2021 and 31 December 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 30 June 2021				
Financial Assets				
Financial instruments-current				
Financial assets at fair value through other comprehensive income ("**FVOCI**")	**–**	**–**	**141,526**	**141,526**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2020				
Financial Assets				
Financial instruments-current				
Financial assets at fair value through profit or loss ("**FVPL**")	–	–	23,377	23,377
Financial assets at FVOCI	–	–	89,629	89,629
	–	–	113,006	113,006

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the six months ended 30 June 2021 and 2020:

	2021 RMB'000	2020 RMB'000
As at 1 January	**113,006**	170,645
Additions	**141,629**	168,535
Deductions	**(113,006)**	(170,645)
Losses recognised in other comprehensive income	**(103)**	(584)
Gains recognised in profit or loss	**–**	148
As at 30 June (unaudited)	**141,526**	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"	**(103)**	(584)

5 FINANCIAL RISK MANAGEMENT (continued)

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 2021 and 2020 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.

6 SEGMENT INFORMATION (continued)

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 2021 and 2020 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**659,359**	826,520
Line pipe technology and services	**138,292**	85,401
Oilfield services	**434,124**	431,839
Offshore engineering services	**339,300**	213,160
	1,571,075	1,556,920

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 2021 is as follows:

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

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 30 June 2021 (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	2,894,482	890,857	1,924,887	1,385,756	7,095,982
Investments accounted for using equity method					92,787
Total assets					7,188,769
Total liabilities (a)	3,248,847	388,171	393,378	43,702	4,074,098

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

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 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.

(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	
	2021 RMB'000	2020 RMB'000
The PRC	**489,998**	214,609
Russia, Central Asia and Europe	**344,387**	508,368
South and Southeast Asia	**322,521**	321,215
Middle East	**166,046**	261,550
North and South America	**163,246**	144,434
Africa	**76,423**	106,744
Others	**8,454**	–
	1,571,075	1,556,920

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 2021	31 December 2020
	RMB'000	RMB'000
The PRC	**1,466,456**	1,601,893
Middle East	**426,052**	401,086
North and South America	**291,507**	343,388
Russia, Central Asia and East Europe	**241,827**	212,180
South and Southeast Asia	**223,839**	239,066
Africa	**82,487**	167,030
	2,732,168	2,964,643

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	
	2021	2020
	RMB'000	RMB'000
Russia, Central Asia and East Europe	**45,514**	3,013
The PRC	**21,932**	26,869
North and South America	**1,466**	3,542
Middle East	**1,115**	2,678
South and Southeast Asia	**108**	1,176
Africa	**31**	343
	70,166	37,621

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 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
As at 1 January 2021			
Cost	**4,383,069**	**151,173**	**264,448**
Accumulated depreciation	**(1,763,543)**	**(45,732)**	**(22,675)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**2,619,526**	**105,441**	**239,676**
Six months ended 30 June 2021			
Opening net book amount	**2,619,526**	**105,441**	**239,676**
Additions	**68,971**	**–**	**1,195**
Disposals	**(70,839)**	**(42,130)**	**–**
Depreciation	**(140,084)**	**(7,749)**	**(1,622)**
Currency translation differences	**(38,973)**	**(362)**	**(882)**
Closing net book amount	**2,438,601**	**55,200**	**238,367**
As at 30 June 2021			
Cost	**4,221,877**	**108,895**	**264,754**
Accumulated depreciation	**(1,783,276)**	**(53,695)**	**(24,290)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**2,438,601**	**55,200**	**238,367**

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Financial assets			
Financial assets at FVPL		–	23,377
Financial assets at FVOCI		141,526	89,629
Financial assets at amortised cost			
– Trade and other receivables	*(a)*	1,688,709	1,682,031
– Cash and cash equivalents		803,357	697,463
– Restricted cash		41,236	77,616
		2,674,828	2,570,116
Financial liabilities			
Borrowings	*(b)*	3,163,429	3,125,515
Trade and other payables	*(c)*	678,052	906,793
Lease liabilities		20,854	27,981
		3,862,335	4,060,289

(a) Trade and other receivables

	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Trade receivables *(i)*	1,638,019	1,648,449
– Due from related parties *(Note 16(c))*	9,033	10,102
– Due from third parties	1,628,986	1,638,347
Less: Provision for loss allowance of receivables *(ii)*	(203,487)	(204,516)
Trade receivables – net	1,434,532	1,443,933
Other receivables	251,431	235,352
Dividends receivable *(Note 16(c))*	2,746	2,746
Trade and other receivables – net	1,688,709	1,682,031

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Trade and other receivables (continued)

As at 30 June 2021 and 31 December 2020, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB6,880,000 (31 December 2020: RMB4,118,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2021 (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 2021 and 31 December 2020 was as follows:

	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Trade receivables, gross		
– Within 90 days	**625,490**	617,547
– Over 90 days and within 180 days	**202,825**	154,954
– Over 180 days and within 360 days	**309,085**	243,305
– Over 360 days and within 720 days	**257,391**	337,770
– Over 720 days	**243,228**	294,873
	1,638,019	1,648,449

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

	(Unaudited) Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Beginning of the period	**(204,516)**	(105,269)
Provision for receivables loss allowance	**(29,162)**	(63,667)
Reversal of loss allowance	**4,000**	–
Write-off of loss allowance	**26,191**	5,709
End of the period	**(203,487)**	(163,227)

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings

	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Non-current		
Bank borrowings – secured *(i)*	186,731	25,764
2024 Notes – secured *(ii)*	2,303,433	–
Less: Current portion of non-current bank borrowings – secured *(i)*	(81,745)	(2,090)
	2,408,419	23,674
Current		
Bank borrowings – secured *(i)*	520,279	157,145
Bank borrowings – unsecured	13,320	19,352
Current portion of 2024 Notes – secured *(ii)*	139,666	–
2020 Notes *(ii)*	–	1,077,352
Cross-default Borrowings *(ii)*	–	1,845,902
Current portion of non-current bank borrowings – secured *(i)*	81,745	2,090
	755,010	3,101,841
	3,163,429	3,125,515

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Beginning of the period	3,125,515	3,243,357
Additions of borrowings – net	2,906,735	491,647
Repayments of borrowings	(2,867,996)	(351,248)
Amortization using the effective interest method	26,174	13,415
Exchange difference	(26,999)	41,142
End of the period	3,163,429	3,438,313

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings (continued)

(i) Bank borrowings – secured

The bank borrowings of RMB114,558,000 (31 December 2020: RMB70,969,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 30 June 2021.

The borrowings of RMB13,816,000 (31 December 2020: RMB12,640,000) from financial institution were secured by trade receivables of RMB6,880,000 and future trade receivables of RMB13,001,000 (31 December 2020: trade receivables of RMB4,118,000 and future trade receivables of RMB14,792,000) of the Group as at 30 June 2021.

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 2021, USD33,545,000 were drawn down, out of which USD10,800,000 had been repaid in past years and the six months ended 30 June 2021. The remaining principals will be fully repayable from 2022 to 2025.

As at 30 June 2021, the remaining part of bank borrowings of RMB435,287,000 (31 December 2020: RMB97,210,000) were guaranteed by subsidiaries of the Company within the Group.

(ii) Senior Notes

In June 2017, the Company issued a three-year 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, bears 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 a three-year 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 a three-year 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 above 2020 Notes, therefore, 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, bears 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.

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings (continued)

(ii) Senior Notes (continued)

As at 31 December 2020, the USD165,114,000 in aggregate principal amount of 2020 Notes was not repaid in accordance with the repayment schedule pursuant to its offering document. This constituted an event of default, and resulted in Cross-default Borrowings amounted to RMB1,846 million in total becoming immediately repayable if requested by the lenders. As a result, the non-current portion of Cross-default Borrowings with original repayment due dates after 31 December 2021, amounted to RMB1,410 million, was classified as current liabilities as at 31 December 2020.

On 18 May 2021, the Company successfully completed the Proposed Restructuring. The 2020 Notes and the 2022 Notes have been cancelled on the Restructuring Effective Date, and the new notes (the "**2024 Notes**") have been issued and listed on the Singapore Exchange Securities Trading Limited on 20 May 2021. The aggregate amount of the 2024 Notes is USD400,735,000, which consists of principal amounting to USD379,135,000 and cash consideration amounting to USD21,600,000 to be paid with interest accruing at 9.75% per annum on or prior to the day that is 180 days after 18 May 2021. The 2024 Notes, guaranteed by certain subsidiaries and several collaterals of the Group, bears interest from 18 May 2021 at 9.75% per annum payable semi-annually in arrears on 18 November and 18 May of each year, beginning from 18 November 2021.

(c) Trade and other payables

	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Bills payable	**9,364**	11,017
Trade payables:	**419,715**	444,289
– Due to third parties	**415,023**	426,206
– Due to related parties *(Note 16(c))*	**4,692**	18,083
Other payables:	**90,256**	167,110
– Due to third parties	**75,363**	140,779
– Due to related parties *(Note 16(c))*	**14,893**	26,331
Staff salaries and welfare payables	**30,521**	31,934
Interest payables	**31,909**	169,401
Accrued taxes other than income tax	**77,606**	59,538
Dividends payable	**10,496**	10,496
Other liabilities	**8,185**	13,008
	678,052	906,793

As at 30 June 2021 and 31 December 2020, 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.

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other payables (continued)

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

	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Trade payables, gross		
– Within 90 days	**306,081**	287,653
– Over 90 days and within 180 days	**105,628**	133,833
– Over 180 days and within 360 days	**3,367**	16,630
– Over 360 days and within 720 days	**3,500**	4,524
– Over 720 days	**1,139**	1,649
	419,715	444,289

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 2020 and 30 June 2020	1,696,438,600	169,643,860	141,975,506
As at 1 January 2021 and 30 June 2021	1,696,438,600	169,643,860	141,975,506

10 OTHER RESERVES

	(Unaudited) 30 June 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Statutory reserve	**115,906**	114,260
Merger reserve	**(496)**	(496)
Share options reserve (a)	**46,089**	46,089
Share premium	**1,175,144**	1,175,144
Financial assets at FVOCI	**(1,822)**	(2,400)
Capital redemption reserve	**702**	702
Capital reserve	**(43,553)**	(43,553)
	1,291,970	1,289,746

(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	
		2021	2020
Beginning of the period	2.60	**29,449,100**	29,500,300
Current period change	2.60	**–**	–
End of the period	2.60	**29,449,100**	29,500,300

The share options outstanding (expiry date: 31 December 2021) as at 30 June 2021 and 2020 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2021	2020
21 April 2012	2.60	**2,176,900**	2,176,900
21 April 2013	2.60	**6,398,000**	6,410,800
21 April 2014	2.60	**6,944,200**	6,957,000
21 April 2015	2.60	**6,957,000**	6,969,800
21 April 2016	2.60	**6,973,000**	6,985,800
	2.60	**29,449,100**	29,500,300

All of the options were exercisable as at 30 June 2021 and 2020. No options were exercised during the six months ended 30 June 2021 and 2020.

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 2021 and 2020:

	Exercise price (per share in HKD)	**Outstanding shares (unaudited)**	
		Six months ended 30 June	
		2021	2020
Beginning of the period	5.93	**15,350,700**	16,058,100
Current period change		**–**	–
End of the period	5.93	**15,350,700**	16,058,100

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 2021 and 2020 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June	
		2021	2020
5 February 2015	5.93	**3,070,140**	3,211,620
5 February 2016	5.93	**3,070,140**	3,211,620
5 February 2017	5.93	**3,070,140**	3,211,620
5 February 2018	5.93	**3,070,140**	3,211,620
5 February 2019	5.93	**3,070,140**	3,211,620
	5.93	**15,350,700**	16,058,100

All of the options were exercisable as at 30 June 2021 and 2020.

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 of loss for the six months ended 30 June 2021 for share options granted under the 2013 Share Option Scheme (six months ended 30 June 2020: no expense recognised in the interim condensed consolidated statement of profit of loss), with a corresponding amount credited in share options reserve.

11 OTHER GAINS – NET

	(Unaudited) Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Exchange (losses)/gains – net	**(35,538)**	15,224
Government grants	**3,930**	1,253
Gains/(losses) on disposal of property, plant and equipment – net	**17,412**	(4,833)
Net gains on disposal of subsidiaries (a)	**64,998**	–
Others	**4,216**	(499)
	55,018	11,145

(a) On 1 June 2021, Hilong Group of Companies Ltd. transferred its 95% equity interest of Nantong Hilong Steel Pipe Co., Ltd. to a third party at a consideration of RMB3,000,000. The Group recorded a gain of approximately RMB7,325,637 from the disposal. All of the consideration has been collected in 2021.

On 25 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. transferred its 70% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd. to a third party at a consideration of RMB103,480,000. The Group recorded a gain of approximately RMB57,672,099 from the disposal. All of the consideration has been collected in 2021.

12 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**1,161**	3,612
– Fair value gains on financial assets at fair value through profit or loss	**–**	148
	1,161	3,760
Finance costs:		
– Interest expense on bank borrowings	**(166,317)**	(135,078)
– Interest expense on lease liability	**(377)**	(860)
– Fair value losses on foreign exchange forward contracts	**–**	(538)
– Exchange gains/(losses)	**24,000**	(37,608)
	(142,694)	(174,084)
Finance costs – net	**(141,533)**	(170,324)

13 INCOME TAX EXPENSE

	(Unaudited) Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current income tax	**18,759**	54,004
Deferred income tax	**14,530**	(32,820)
Income tax expense	**33,289**	21,184

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 2021 (for the six months ended 30 June 2020: 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%.

13 INCOME TAX EXPENSE (continued)

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 2019 to 2021.

As at 30 June 2021, the permanently reinvested unremitted earnings totalled RMB1,610,040,000 (31 December 2020: RMB1,493,920,000).

14 EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share is computed by dividing the net earnings/(losses) 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	
	2021	2020
Earnings/(losses) attributable to equity owners of the Company (RMB'000)	**40,209**	(41,819)
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,439**	1,696,439
Basic earnings/(losses) per share (RMB per share)	**0.0237**	(0.0247)

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 2021, there were 29,499,100 (30 June 2020: 29,500,300) share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2021 and 2020, 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 2021, there were 15,350,700 (30 June 2020: 16,058,100) share options outstanding related to 2014 Share Option Scheme. For the six months ended 30 June 2021 and 2020, 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 Directors have determined that no dividend will be proposed for the year ended 31 December 2020.

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 directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: 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 2021 and 2020, and balances arising from related party transactions as at 30 June 2021 and 31 December 2020.

(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.
Shanghai Hilong Special Steel Pipe Co., Ltd.*

* Shanghai Hilong Special Steel Pipe Co., Ltd. was partially disposed on 25 June 2021, and became an associate of the Group (Note 11).

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 2021 and 2020, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Sales of goods or services:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**5,056**	8,673
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**1,716**	2,592
Shanghai Hilong Shine New Material Co., Ltd.	**1,187**	294
	7,959	11,559
Purchase of goods:		
Shanghai Hilong Shine New Material Co., Ltd.	**–**	9,548
Short-term rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**5,575**	5,014
Interest expenses on lease liabilities:		
Shanghai Longshi Investment Management Co., Ltd.	**161**	22
Beijing Huashi Hailong Oil Investments Co., Ltd.	**–**	11
	161	33
Rental income:		
Shanghai Hilong Shine New Material Co., Ltd.	**1,292**	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 2021 RMB'000	(Audited) 31 December 2020 RMB'000
Trade receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**5,999**	5,999
Shanghai Hilong Shine New Material Co., Ltd.	**2,162**	4,103
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**872**	–
	9,033	10,102
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**43,956**	43,956
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**28,602**	15,508
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**26,350**	26,979
Shanghai Hilong Shine New Material Co., Ltd.	**7,294**	8,238
Hilong Group Limited	**1,515**	1,515
Shanghai Hilong Special Steel Pipe Co., Ltd.	**1,229**	–
	108,946	96,196
Lease liabilities due to:		
Shanghai Longshi Investment Management Co., Ltd.	**6,919**	8,430
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**3,759**	18,083
Shanghai Longshi Investment Management Co., Ltd.	**933**	–
	4,692	18,083
Other payables due to:		
Shanghai Longshi Investment Management Co., Ltd.	**11,849**	10,232
Shanghai Hilong Shine New Material Co., Ltd.	**1,372**	15
Mr. Zhang Jun	**938**	938
Beijing Huashi Hailong Oil Investments Co., Ltd.	**734**	7,146
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**–**	8,000
	14,893	26,331
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

CHANGE IN DIRECTOR'S INFORMATION

There was change in information of director since the date of the 2020 Annual Report of the Company as follows:

– Ms. Zhang Shuman, non-executive director, ceased to act as a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 20 August 2021.

DISCLOSURE OF INTERESTS

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

As at 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of 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 of Hong Kong Limited (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 in the Company's issued share capital
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	1,260,000	
		998,641,800	58.867%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000(3)	
	Beneficial owner	692,000	
		24,992,000	1.473%
Mr. Cao Hongbo	Beneficial owner	1,708,000	0.101%
Mr. Wong Man Chung Francis	Beneficial owner	1,288,000	0.076%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Dr. Yang Qingli	Interest of spouse	77,000(4)	0.005%

Notes:

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

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

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

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

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

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

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

As at 30 June 2021, 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 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 of the Company

Name of substantial shareholder	Capacity	Number of shares interested	Approximate percentage in the Company's issued share capital
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	998,641,800(3)	58.867%

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 of the Company in which Mr. Zhang Jun is interested.

POST-IPO SHARE OPTION SCHEME

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 interim report, none of the share options granted has been exercised. Details of movements in the options granted and outstanding under the post-IPO share option scheme during the Interim Period are as follows:

	Number of share options								
Category/ name of grantees	Outstanding as at 1 January 2021	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2021	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Employees of the Group other than Directors	15,350,700	–	–	–	15,350,700	5.93	N/A	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 during the Interim Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF INTERIM 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 2021