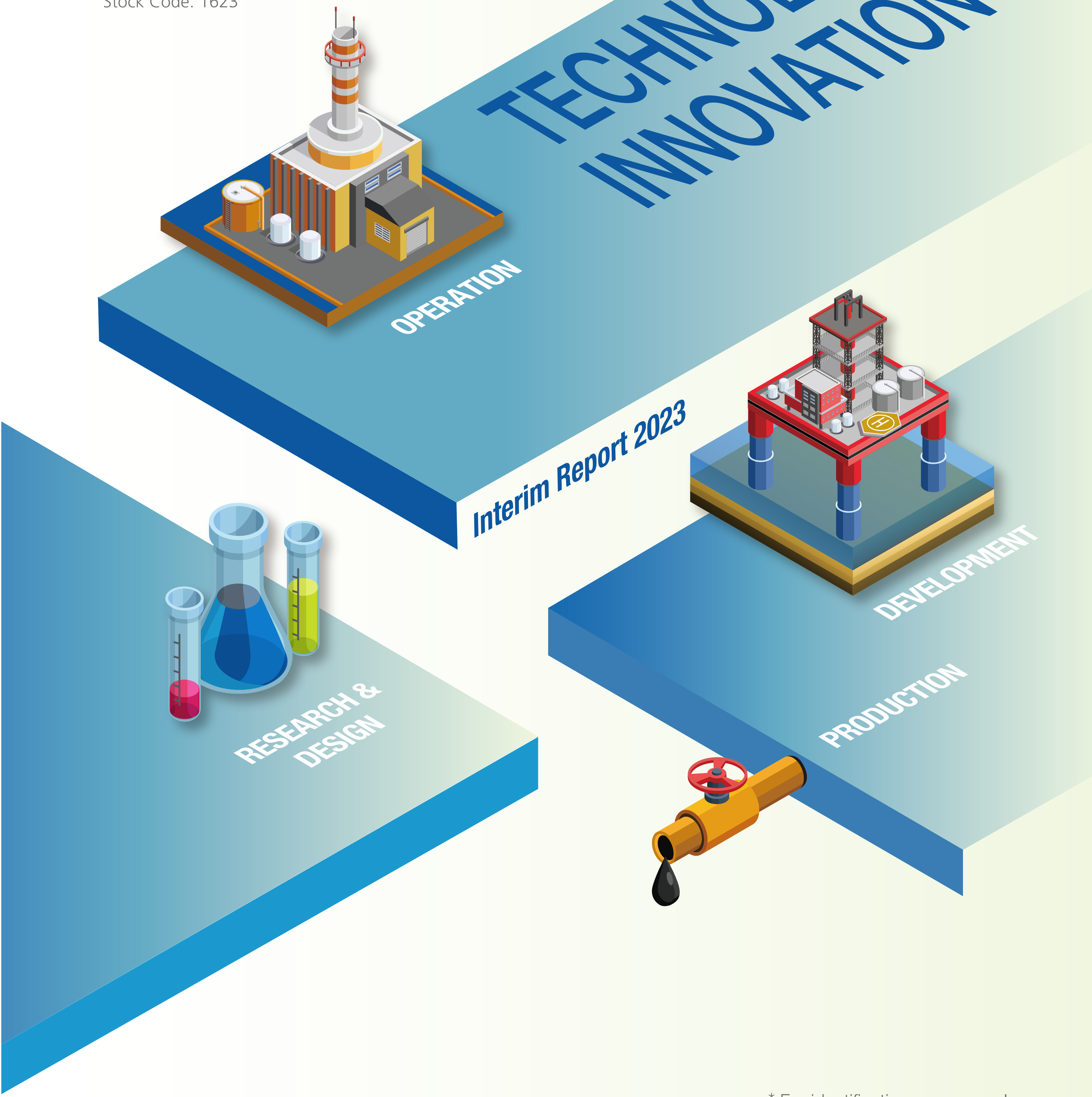
海隆控股有限公司*

Hilong Holding Limited

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

TECHNOLOGICAL INNOVATION



Interim Report 2023

* For identification purpose only

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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)
Dr. Fan Ren Da Anthony (范仁達)

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

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER

No. 1825, Luodong Road
Baoshan Industrial Zone
Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB272.0 million, or 27.1%, from RMB1,003.1 million for the six months ended 30 June 2022 to RMB1,275.1 million for the Interim Period. Such increase primarily reflected the increase in revenue derived from drill pipe sales.

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

	Six months ended 30 June	
	2023	2022
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**32,724**	31,461
– unit price *(RMB/tonne)*	**24,936**	24,319
Subtotal *(RMB'000)*	**816,011**	765,116
– The PRC market		
– volume *(tonnes)*	**6,510**	1,434
– unit price *(RMB/tonne)*	**17,126**	17,118
Subtotal *(RMB'000)*	**111,489**	24,543
Total *(RMB'000)*	**927,500**	789,659

Revenue from sales of drill pipes in the international market increased by RMB50.9 million, or 6.7%, from RMB765.1 million for the six months ended 30 June 2022 to RMB816.0 million for the Interim Period. The increase primarily reflected an increase of 4.0% in the volume of drill pipes sold from 31,461 tonnes for the six months ended 30 June 2022 to 32,724 tonnes for the Interim Period and a 2.5% increase in average selling price sold in the international market from RMB24,319 per tonne for the six months ended 30 June 2022 to RMB24,936 per tonne for the Interim Period. The increase in the sales volume primarily reflected the large demands from the North American market and the Company's strategy to put more effort into long-term cooperation with prestigious customers in the international market.

Revenue from sales of drill pipes in the PRC market increased by RMB87.0 million, or 355.1%, from RMB24.5 million for the six months ended 30 June 2022 to RMB111.5 million for the Interim Period. The increase primarily reflected a 354.0% increase in the volume of drill pipes sold in the PRC market, from 1,434 tonnes for the six months ended 30 June 2022 to 6,510 tonnes for the Interim Period. The increase in the sales volume primarily reflected the Group sold drill pipes to certain domestic drilling rig manufacturers for their rigs sales.

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

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

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

Cost of Sales/Services

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

Gross Profit and Gross Profit Margin

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Other Gain – Net

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

Finance Costs – Net

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

Profit before Income Tax

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

Income Tax Expense

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

Profit for the period attributable to equity owners of the Company

As a result of the foregoing, the Group recognized profit for the period attributable to equity owners of the Company of RMB144.7 million for the Interim Period and profit for the period attributable to equity owners of the Company of RMB54.1 million for the six months ended 30 June 2022.

Inventories

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

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Inventory	**1,342,553**	1,174,154
Turnover days of inventory (in days)[1]	**158**	152

[1] Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 181 for the Interim Period and by 365 for the year ended 31 December 2022. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The increase of inventories from 31 December 2022 to 30 June 2023 reflected the increase of reserves for new orders in overseas market.

Trade and Other Receivables

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

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

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

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

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Trade receivables, net		
– Within 90 days	**973,712**	1,055,178
– Over 90 days and within 180 days	**247,340**	270,982
– Over 180 days and within 360 days	**270,817**	122,830
– Over 360 days and within 720 days	**67,434**	56,397
– Over 720 days	**35,992**	51,304
	1,595,295	1,556,691
Turnover days of trade receivables, net[1]	**135**	144

(1) Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2022. Average trade receivables equal balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The decrease in turnover days of trade receivables from 144 days as at 31 December 2022 to 135 days as at 30 June 2023 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was more active and accelerated in the Interim Period.

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

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
As at 1 January	**99,969**	129,166
Provision for receivables loss allowance	**7,367**	42,917
Write-off of loss allowance	**(59,288)**	(811)
As at 30 June	**48,048**	171,272

Trade and Other Payables

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

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Bills payable	**10,199**	5,121
Trade payables		
– Due to related parties	**18,206**	19,326
– Due to third parties	**902,610**	658,541
Other payables		
– Due to related parties	**90,904**	23,763
– Due to third parties	**64,969**	64,462
Staff salaries and welfare payables	**47,091**	55,183
Interest payables	**31,042**	33,439
Accrued taxes other than income tax	**145,656**	156,678
Dividends payable	**9,996**	10,496
Other liabilities	**8,614**	6,259
	1,329,287	1,033,268

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

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

(1) Turnover days of trade payables for a period or a year equals average trade payables divided by total cost of sales and then multiplied by 181 for the Interim Period, and by 365 for the year ended 31 December 2022. Average trade payables equals to balance of trade payables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**176,974**	(5,846)
Net cash generated from/(used in) investing activities	**49,684**	(48,831)
Net cash used in financing activities	**(175,041)**	(76,256)
Net increase/(decrease) in cash and cash equivalents	**51,617**	(130,933)
Exchange gains on cash and cash equivalents	**8,083**	21,131
Cash and cash equivalents at beginning of the period	**778,440**	628,805
Cash and cash equivalents at end of the period	**838,140**	519,003

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

Operating Activities

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

Net cash used in operating activities for the six months ended 30 June 2022 was RMB5.8 million, representing cash generated from operation of RMB48.0 million, offsetting by the income tax payment of RMB53.8 million, primarily reflecting the increase of inventory procurement for orders in the latter half of the year 2022.

Investing Activities

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

Net cash used in investing activities for the six months ended 30 June 2022 was RMB48.8 million, primarily reflecting payment of RMB58.8 million for purchases of property, plant and equipment, partially offset by proceeds of RMB10.5 million from disposal of property, plant and equipment.

Financing Activities

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

Net cash used in financing activities for the six months ended 30 June 2022 was RMB76.3 million, primarily reflecting (i) the repayment of borrowings of RMB384.3 million, (ii) interest payment of RMB137.1 million, and (iii) net cash outflow arising from security deposit for bank borrowings of RMB7.2 million, partly offset by proceeds of borrowings of RMB455.9 million.

CAPITAL EXPENDITURES

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

INDEBTEDNESS

As at 30 June 2023, the outstanding indebtedness of RMB3,140.4 million was mainly denominated in USD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

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

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

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

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

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

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2023, USD33,545,000 were drawn down, out of which USD23,040,000 had been repaid in past years and the six months ended 30 June 2023. The remaining principal balance will be fully repayable from 2023 to 2025.

References are made to "Management Discussion and Analysis – Financial Review" in the 2021 annual report of the Company in relation to the 2024 Notes. On 20 May 2021, the Company announced that the Debt Restructuring was completed on 18 May 2021, the Existing Notes had been cancelled and, in exchange therefor, the new notes representing the USD379,135,000 9.75% senior secured notes due 2024 ("**2024 Notes**") had been issued by the Company. In connection with the 2024 Notes, the Company pledged certain drilling rigs as securities. The Company further announced that the 2024 Notes had been listed on the Singapore Exchange Securities Trading Limited on 20 May 2021.

GEARING RATIO

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

Consistent with peers in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) and lease liabilities less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 30 June 2023 and 31 December 2022 are as follows:

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

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND/OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

    As of 30 June 2023, the Purchaser had paid RMB70 million, being the First Instalment of the Consideration for the Hilong Pipeline Disposal. The remaining Consideration has not been paid as of the date of this report. The Company has regular communication with the Purchaser and will closely monitor the progress of the payment of the remaining Consideration. As of 30 June 2023, each member of the Target Group remained as a subsidiary of the Company and their financials were consolidated into the Group's consolidated financial statements for the six months ended 30 June 2023. Please also refer to note 17 to the interim condensed consolidated financial information in this report for further details.

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

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

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

* For identification purpose only

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

FOREIGN EXCHANGE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 10.8% appreciation of RMB against the USD from 21 July 2005 to 30 June 2023. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 51.0% and 35.6% of the total revenue of the Company for the six months ended 30 June 2022 and the Interim Period, respectively.

STAFF AND REMUNERATION POLICY

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

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

Employee costs excluding the Directors' remuneration totaled RMB446.4 million for the Interim Period.

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

The Company adopted a post-IPO share option scheme on 10 May 2013. On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share. As at the date of this report, none of the share options granted has been exercised. The post-IPO share option scheme expired on 9 May 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, despite some fluctuations in the international crude oil price caused by global economic uncertainty, the favorable international fundamentals provided plenty of support for the international crude oil price. Generally speaking, the international crude oil price still remained high, resulting in increased capital expenditure within the oil and gas industry, the number of orders also continued to increase. At the same time, China strengthened its cooperation with the Middle East and Central Asia, and held the "China-Arab States Summit" and "China-Central Asia Summit" in 2022 and 2023 respectively, to expand energy and economic cooperation. Under such favorable market environment, Hilong actively expanded both international and domestic markets and adopted a scientific management approach within the whole Group, so as to reduce costs and increase efficiency. While intensifying its efforts in market development, the Company attached importance to scientific development and technological innovation, and has been gradually developing into an asset-light, digital and high-tech intelligent enterprise. The Company's overall operations in the first half of 2023 remained stable and achieved significant improvements in its business performance as compared with the first half of 2022. During the Interim Period, Hilong recorded a total revenue of RMB2,106 million, representing an increase of 24% compared with the first half of 2022. As there were sufficient projects for each business segment, the three segments, namely oilfield equipment manufacturing and services, oilfield services and offshore engineering services achieved growths in revenue to a relatively large extent.

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

Oilfield Equipment Manufacturing and Services

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

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

Oilfield Services

During the Interim Period, the oilfield services segment recorded a total revenue of RMB589 million, representing a significant growth of 28% compared with the first half of 2022. Since 2023, the increase in capital expenditure has brought substantial benefits to the oil service industry and boosted the industry's prosperity. Hilong adopted scientific management measures to optimize its oil services in the overseas market. By measures of coordinating different business units in drilling and workover services, technical services and trade services and implementing localization of workers, the Company fully displayed the synergistic effects among different business segments, ensuring a stable growth of the performance of the oilfield services segment. With the efforts of Hilong's drilling and workover service team, the utilization rate of our drilling and workover rigs as a whole continued to increase compared with the corresponding period last year, and a number of drilling rigs under standby resumed operations. The Company also secured a number of new contracts for other drilling rigs in operation and renewed or extended contracts for these drilling rigs, which ensured the continuous workload in the future. While continuing to develop the conventional well drilling and workover markets, the Company also actively expanded turnkey drilling projects, so as to develop integrated services. For instance, our HL22 fleet has safely completed all work on the first drilling and completion turnkey well in Iraq since the establishment of the Company, demonstrating the enhancement in our capability of integrated drilling and well completion. During the Interim Period, the overall relocation speed of the drilling fleet increased compared with the corresponding period in 2022, and the non-production time rate (NPT) and zero-day rate of the drilling fleet presented a downward trend in recent years, which indicated that the Company's operating efficiency has been continuously and effectively improved. At the same time, leveraging the conventional well drilling and workover services, the Company also actively participated in the bidding of other technical services and explored new business fields. The Company maintained stable development in fields of environmental technology services such as drilling and workover mud and rock fragments processing and well site recovery, coiled tubing business, production enhancement technology based on nanofluids flooding, refined managed pressure drilling (MPD) technology, directional and horizontal well drilling and other comprehensive technical services, and will further develop more diversified technical services businesses including well completion and production increase, drilling speed and efficiency improvement, oilfield environmental protection, as well as rotary steering technology. The volume of trade service business segment also had greater improvement compared with the first half of 2022. The oilfield service team actively strengthened the promotion of drilling, workover and automation business, and established close partnerships with important local customers in key areas to get well prepared for exploring new market opportunities.

Line Pipe Technology and Services

During the Interim Period, the line pipe technology and services segment recorded a total revenue of RMB94 million, representing a decrease of 47% from the first half of 2022. During the Interim Period, the line pipe technology and services segment secured project cooperation from a number of customers, actively promoted scientific research projects, and the progress of scientific research projects was in line with expectations. We continued to maintain the qualification of the existing high-tech enterprises and specialized new enterprises, and completed the application for registration as an innovative enterprise. The information technology business has completed the first stage of development of the AI-based pipeline inspection data analysis technology, and the Company has also obtained a number of intellectual property rights and completed the certification of ISO/IEC 20000-1 and other qualifications. The Company has won the bid or signed contracts for a number of projects, including software development, pipeline early warning system and personnel positioning system, and at the same time, the Company has been actively exploring conducting IT/digitalized business with various partners to expand into new fields.

Offshore Engineering Services

During the Interim Period, the offshore engineering services segment recorded a total revenue of RMB149 million, representing a remarkable 131% increase from the first half of 2022. During the Interim Period, centering on strengthening the two main business lines of "market development" and "project execution", the offshore engineering services segment actively developed new business fields globally. Through the expansion of market channels and the construction of the bidding system as well as the improvement of bidding quality, the Company has achieved promising results in market development, with a significant increase in workload as compared to the first half of 2022 and good development momentum. The Company has recently entered into a contract in relation to offshore platform installation and submerged pipeline and cable laying with Lamprell Energy Limited and Lamprell Saudi Arabia LLC, pursuant to which Hilong Marine Engineering will provide them with engineering construction services, such as installation of new platforms, modification of existing platforms, laying of submerged pipelines, laying of submerged cables, replacement of platform risers, and transportation and installation of the above works. The signing of the contract signifies that the Group's offshore oilfield services are highly recognized by the industry, which lays a good foundation for Hilong Marine Engineering to strengthen development of the Middle East oil and gas market. In Southeast Asia region, the Company has entered into a subsea pipeline laying contract with Mermaid Subsea Services (Thailand) Ltd, pursuant to which Hilong Marine Engineering will provide Mermaid Subsea Services (Thailand) Ltd with engineering construction services including subsea pipeline laying, expansion loops installation, riser and underwater installation of a pipeline end termination (PLET) system. This demonstrates that the Group's offshore oilfield services are recognized by leading players in the industry which will further benefit the Company's market development in the Southeast Asia region. During the Interim Period, the Company successfully completed the CGN offshore wind power installation turnkey project and CNOOC long term agreement project. We also won the bid for key projects in regions including the Middle East and Thailand. Moreover, there were a number of projects waiting for bid evaluation results or in the process of project bidding, laying a good foundation for the construction and operation of contracts in the second half of the year. At the same time, the Company attaches great importance to high-tech research and development, and has applied for the qualification as a 2023 technology-based enterprise. Research on "Strengthening Offshore Construction Capability" and "New Technologies for Offshore Engineering", with emphasis on strengthening the construction of digitalization capability of offshore engineering, has continued to progress, with some research results having been achieved. On this basis, the Company focused on promoting the synergistic effects of the HMEL's Engineering Technology Center, Engineering Construction Center, Intelligent Control Technology Center and Offshore Installation Center (the "**Four Centers**"), to gradually develop an integrated and standardized management system for market communication, bidding management, database construction, etc.; perfecting the market management structure and recruitment of professional staff for various functions, expanding the bidding team and strengthening capacity building to lay a good foundation for the Company to realize the light asset business route based on the enhancement of high technology.

Technology Research and Development

Hilong has been adhering to the strategy of promoting sustainable development of the enterprise through high-tech innovation, and has implemented the Hilong Digital Transformation Project within the Group. We have already initiated business research of all departments, which will help enhance the overall digitalization level of the Group. In the first half of 2023, in terms of drilling tool products, the Company strengthened continual research on and promoted the application of high strength sour service, high strength and high torque drill pipe technology, and completed inspection and acceptance of projects including the research and manufacturing of HLNST special screw heads. The Company has secured orders for HLNST drill pipes with special buckle from the North American market, a market with promising prospects. We have developed HL135MS/HL130S higher strength sour service drill pipes on the basis of previous high strength sour service drill pipe projects which have achieved substantial results. We have signed a large order in US dollars in respect of HL125S high strength sour service, and have strengthened research and production of super high strength drill pipes. We have completed the software development of information management of drill pipes and drilling tools with radio frequency identification tags, and have currently received orders for drill pipes with radio frequency identification tags in the Middle East. We have also carried out research and development of intelligent drill pipes. With improvements in drilling tool production process, equipment and systems, we have achieved cost reduction and efficiency enhancement, and together with the digitalized transformation of the Group, we have gradually carried out automatic and intelligent transformation of production equipment with systematic planning. This year, Hilong's HL125S high strength sour service drill pipes for complex drilling in sulfur-containing oil and gas field has been selected for the 2023 Shanghai Innovative Product Recommendation Catalog. Projects including 125S high strength sour service obtained the 2023 Hi-Tech Achievement Transformation Recognition. In terms of oilfield services, the Company has strengthened the localized development and promotion of the key drilling equipment components for fine pressure control, as well as the promotion and application of rotary steering technology and nanofluids flooding production enhancement technology, etc. In terms of information technology business, projects including research on application of technology for intelligent patrolling robots have made intermediate progress. In terms of offshore engineering, we have carried out several research projects including offshore engineering technology and offshore engineering digitalization, such as research study on near shore section pipeline landing, development of computer program for ship tilting experiment, visualization study of offshore installation of wind power project, and digital commissioning system study, etc. Hilong will continue to improve on the basis of its existing scientific research achievements, engage in continuous innovation and research and development, and promote the long-term development of the enterprise with the power of high technology. During the Interim Period, another two companies under the Hilong Group were granted the qualification of "Highly Specialized and Innovative" (專精特新) enterprise of Shanghai. At present a total of seven companies have been granted this qualification, demonstrating the outstanding performance in specialization, refinement, distinctiveness and novelty of a number of business segments under the Hilong Group, fully reflecting Hilong's technological advantages and brand competitiveness driven by independent research and development and innovation. In the future, Hilong will continue to adhere to the development concept of independent innovation, make deep efforts in the field of high-end oilfield equipment and onshore and offshore oilfield services, continue to give full play to the advantages of the world's leading oilfield equipment and service provider, and actively contribute to the upgrading of the high-tech industrial segment in the advanced manufacturing industry.

OUTLOOK

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

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

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

Regarding the oil services business, Hilong will complete operations for traditional well drilling and workover projects in mature markets including Nigeria, Ecuador, Iraq and Oman with assurance on quality and quantity, and continue to secure for signing of new contracts. Moreover, Hilong will strive to achieve further breakthroughs in "existing markets with new business" in these regions, and will actively develop various types of business, including drilling turnkey, oilfield environmental protection, nanofluids production enhancement, drilling tool repair, and trading services, to provide more diversified and distinctive services on the basis of traditional drilling and workover services. At the same time, we will continue to expand into new markets, reach new customers and make new progress in regions including the UAE, Libya, Malaysia and Central Asia as well as in China. We will fully utilize the advantages of drilling and workover rig platform, strive for business expansions, seize opportunities to optimize and adjust the layout of drilling machines, and improve profitability and reduce the scale of assets. We will leverage various platforms to generate sales of domestic products and expand trade volume, while enhancing capability for drilling and workover contract services or integrated project management. We will develop engineering and technical services based on the principles of business scale and business continuity, and build technical business teams and strive to introduce and form our own core technologies. On the basis of consolidating the existing business, the Company will actively expand the technical services of directional wells and horizontal wells with RSS (Rotary Steering System) as the core. At the same time, the Company will develop the managed pressure drilling (MPD) service and coiled tubing business as new business growth points, so as to strengthen external cooperation and research and strive for achieving the construction of market platform. Without limitation to drilling and workover business, the Company will also actively explore sales of drilling and workover rigs equipment and spare parts, and tubing and casing trading business to strengthen the links and synergies among various businesses, so as to support drilling and workover services, technical services as well as external cooperation, further consolidate customer relationships and achieve integrated management of oil services business and more business breakthrough.

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

EVENTS AFTER THE END OF THE INTERIM PERIOD

Saved as disclosed in this report, 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 2023

	Note	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**2,580,892**	2,533,230
Right-of-use assets	*7*	**48,766**	51,850
Intangible assets	*7*	**220,082**	219,364
Investments accounted for using equity method		**49,523**	93,847
Deferred income tax assets		**176,022**	183,586
Other long-term assets		**142,393**	105,659
Total non-current assets		**3,217,678**	3,187,536
Current assets			
Inventories		**1,342,553**	1,174,154
Contract assets		**166,578**	188,301
Financial assets at fair value through other comprehensive income	*8*	**45,547**	52,059
Trade and other receivables	*8*	**1,905,643**	1,784,960
Prepayments		**504,122**	470,280
Current income tax recoverable		**45,472**	69,542
Restricted cash	*8*	**79,710**	95,755
Cash and cash equivalents	*8*	**838,140**	778,440
Total current assets		**4,927,765**	4,613,491
Total assets		**8,145,443**	7,801,027
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	*9*	**141,976**	141,976
Other reserves	*10*	**1,309,103**	1,309,078
Currency translation differences		**(324,806)**	(268,560)
Retained earnings		**2,285,393**	2,140,692
		3,411,666	3,323,186
Non-controlling interests		**37,121**	31,788
Total equity		**3,448,787**	3,354,974

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2023

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

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 2023

	Note	(Unaudited) Six months ended 30 June 2023 RMB'000	2022 RMB'000
Revenue	*6(a)*	**2,106,394**	1,703,243
Cost of sales		**(1,444,931)**	(1,246,369)
Gross profit		**661,463**	456,874
Selling and marketing expenses		**(60,685)**	(63,615)
Administrative expenses		**(301,708)**	(209,852)
Net impairment losses on financial assets		**(17,985)**	(47,561)
Other gains – net	*11*	**157,668**	221,870
Operating profit		**438,753**	357,716
Finance income	*12*	**3,800**	1,346
Finance costs	*12*	**(210,793)**	(287,291)
Finance costs – net		**(206,993)**	(285,945)
Share of profit/(loss) of investments accounted for using equity method		**55**	(1,895)
Profit before income tax		**231,815**	69,876
Income tax expense	*13*	**(81,253)**	(13,912)
Profit for the period		**150,562**	55,964
Profit attributable to:			
Equity owners of the Company		**144,701**	54,058
Non-controlling interests		**5,861**	1,906
		150,562	55,964
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	*14*	**0.0853**	0.0319
– Diluted	*14*	**0.0853**	0.0319

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 2023

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

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 2023

	(Unaudited)						
	Capital and reserves attributable to equity owners of the Company						
	Ordinary shares RMB'000	Other reserves RMB'000	Cumulative translation differences RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2022	141,976	1,301,869	(435,273)	2,006,907	3,015,479	27,348	3,042,827
Profit for the period	–	–	–	54,058	54,058	1,906	55,964
Other comprehensive income/(loss)	–	24	322,039	–	322,063	(95)	321,968
Total comprehensive income for the period	–	24	322,039	54,058	376,121	1,811	377,932
As at 30 June 2022	141,976	1,301,893	(113,234)	2,060,965	3,391,600	29,159	3,420,759
As at 1 January 2023	**141,976**	**1,309,078**	**(268,560)**	**2,140,692**	**3,323,186**	**31,788**	**3,354,974**
Profit for the period	**–**	**–**	**–**	**144,701**	**144,701**	**5,861**	**150,562**
Other comprehensive income/(loss)	**–**	**25**	**(56,246)**	**–**	**(56,221)**	**(528)**	**(56,749)**
Total comprehensive income for the period	**–**	**25**	**(56,246)**	**144,701**	**88,480**	**5,333**	**93,813**
As at 30 June 2023	**141,976**	**1,309,103**	**(324,806)**	**2,285,393**	**3,411,666**	**37,121**	**3,448,787**

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 2023

	(Unaudited) Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Cash flow from/(used in) operating activities		
Cash flow generated from operations	**238,584**	47,961
Income tax paid	**(61,610)**	(53,807)
Net cash generated/(used in) operating activities	**176,974**	(5,846)
Cash flow from/(used in) investing activities		
Proceeds from sale of property, plant and equipment	**4,235**	10,508
Payments for property, plant and equipment	**(75,533)**	(58,786)
Purchases of intangible assets	**–**	(3,862)
Net proceeds from disposal of an associate of the Group *(Note 11(a))*	**57,980**	–
Proceeds from Shanghai Hilong Shine New Material Co., Ltd. *(Note 17)*	**70,000**	–
Capital reduction from an associate	**–**	3,800
Loans to related parties	**(10,450)**	(1,524)
Dividends received	**3,452**	1,033
Net cash generated/(used in) investing activities	**49,684**	(48,831)
Cash flow used in financing activities		
Proceeds from borrowings	**348,263**	455,940
Repayments of borrowings	**(330,919)**	(384,346)
Interest paid	**(137,405)**	(137,058)
Principal element of lease payments	**(3,180)**	(3,612)
Cash inflow/(outflow) arising from security deposit for bank borrowings	**930**	(7,180)
Dividends paid *(Note 8(c))*	**(500)**	–
Repurchase of the 2024 Notes *(Note 8(b))*	**(52,230)**	–
Net cash used in financing activities	**(175,041)**	(76,256)
Net increase/(decrease) in cash and cash equivalents	**51,617**	(130,933)
Cash and cash equivalents at beginning of the period	**778,440**	628,805
Effects of exchange rate changes on cash and cash equivalents	**8,083**	21,131
Cash and cash equivalents at end of the period	**838,140**	519,003

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 2023

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 25 August 2023.

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 2023 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting".

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, it should be read in conjunction with the annual financial statements for the year ended 31 December 2022, and any public announcements made by the Company during the interim reporting period.

3 MATERIAL ACCOUNTING POLICIES INFORMATION

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, except for the adoption of new and amended standards as set out below.

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

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

A number of amended standards became applicable for the current reporting period. There is no material impact as a result of adopting these standards.

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKFRS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

3 MATERIAL ACCOUNTING POLICIES INFORMATION (continued)

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

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments)	Lease liability in sale and leaseback	1 January 2024
HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

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 2022.

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 2022.

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 2023					
Non-derivatives					
Borrowings and interest payables	**855,953**	**2,770,855**	**–**	**–**	**3,626,808**
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	**1,105,498**	**–**	**–**	**–**	**1,105,498**
Lease liabilities	**3,017**	**2,588**	**3,488**	**9,405**	**18,498**
	1,964,468	**2,773,443**	**3,488**	**9,405**	**4,750,804**
As at 31 December 2022					
Non-derivatives					
Borrowings and interest payables	823,645	2,800,566	5,978	–	3,630,189
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	787,968	–	–	–	787,968
Lease liabilities	5,066	2,529	4,163	9,807	21,565
	1,616,679	2,803,095	10,141	9,807	4,439,722

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 2023 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. The quoted market price already incorporates the market's assumptions with respect to changes in economic climate such as rising interest rates and inflation, as well as changes due to ESG risk. 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 and for instruments where ESG risk gives rise to a significant unobservable adjustment.

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 2023 and 31 December 2022:

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
As at 30 June 2023				
Financial Assets				
Financial instruments-current				
Financial assets at fair value through other comprehensive income ("**FVOCI**")	**–**	**–**	**45,547**	**45,547**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2022				
Financial Assets				
Financial instruments-current Financial assets at FVOCI	–	–	52,059	52,059

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the six months ended 30 June 2023 and 2022:

	2023 RMB'000	2022 RMB'000
As at 1 January	**52,059**	132,897
Additions	**45,529**	47,836
Deductions	**(52,066)**	(132,922)
Gains recognised in other comprehensive income	**25**	24
As at 30 June (unaudited)	**45,547**	47,835
Total gains for the period included in other comprehensive income under "Changes in the fair value of financial assets at FVOCI"	**25**	24

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 2023 and 2022 as such expenses are the general management expenses and incurred by the headquarter of the Group, and are not specifically attributable to individual segments.

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

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

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 2023 and 2022 are set out as follows:

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

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 2023 is as follows:

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

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

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

(a) As at 30 June 2023, the Senior Notes of USD 345,953,000 (31 December 2022: USD360,388,000) 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 2022 is as follows:

	Six months ended 30 June 2022 (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	1,018,309	200,823	458,544	64,292	1,741,968
Inter-segment sales	(15,173)	(23,552)	–	–	(38,725)
Revenue from external customers	1,003,136	177,271	458,544	64,292	1,703,243
Revenue from contracts with customers:					
– at a point in time	778,031	33,984	99,326	–	911,341
– over time	217,631	143,287	359,218	64,292	784,428
	995,662	177,271	458,544	64,292	1,695,769
Revenue from other sources:					
– rental income	7,474	–	–	–	7,474
	1,003,136	177,271	458,544	64,292	1,703,243
Results					
Segment gross profit/(loss)	284,915	61,380	150,722	(40,143)	456,874
Segment profit/(loss)	305,373	25,818	85,650	(36,415)	380,426
Corporate overheads					(22,710)
Operating profit					357,716
Finance income					1,346
Finance costs					(287,291)
Share of loss of investments accounted for using equity method					(1,895)
Profit before income tax					69,876
Other information					
Depreciation of property, plant and equipment	28,698	8,235	54,283	24,086	115,302
Depreciation of right-of-use assets	2,452	–	–	1,524	3,976
Amortisation of intangible assets	4,149	354	232	7	4,742
Capital expenditure	17,183	3,253	23,773	14,686	58,895

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

As at 30 June 2022 (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	3,616,180	739,336	1,961,843	1,426,506	7,743,865
Investments accounted for using equity method					86,503
Total assets					7,830,368
Total liabilities *(a)*	3,620,983	330,170	390,660	67,796	4,409,609

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

(c) Geographical segments

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

	(Unaudited) Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Russia, Central Asia and Europe	**590,050**	485,181
North and South America	**476,080**	230,958
Middle East	**420,704**	437,213
The PRC	**398,521**	288,764
Africa	**117,036**	106,991
South and Southeast Asia	**104,003**	154,136
	2,106,394	1,703,243

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) Carrying amount of segment assets	(Audited)
	30 June 2023 RMB'000	31 December 2022 RMB'000
The PRC	**1,516,740**	1,518,394
Middle East	**641,101**	571,888
North and South America	**240,390**	231,642
Russia, Central Asia and East Europe	**180,181**	202,306
South and Southeast Asia	**139,895**	143,758
Africa	**131,433**	136,456
	2,849,740	2,804,444

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

	(Unaudited) Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Middle East	**33,794**	2,914
The PRC	**19,996**	33,536
Russia, Central Asia and East Europe	**13,649**	5,101
North and South America	**12,536**	16,684
South and Southeast Asia	**845**	645
Africa	**150**	15
	80,970	58,895

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 2022			
Cost	4,158,158	88,563	242,793
Accumulated depreciation	(1,776,534)	(37,340)	(30,477)
Impairment provision	–	–	(2,097)
Net book amount	2,381,624	51,223	210,219
Six months ended 30 June 2022			
Opening net book amount	2,381,624	51,223	210,219
Additions	55,033	–	3,862
Disposals	(14,327)	–	–
Depreciation	(115,302)	(3,976)	(4,742)
Currency translation differences	177,199	435	22,005
Closing net book amount	2,484,227	47,682	231,344
As at 30 June 2022			
Cost	4,453,175	88,991	268,941
Accumulated depreciation	(1,968,948)	(41,309)	(35,500)
Impairment provision	–	–	(2,097)
Net book amount	2,484,227	47,682	231,344
As at 1 January 2023			
Cost	**4,686,805**	**96,371**	**261,358**
Accumulated depreciation	**(2,153,575)**	**(44,521)**	**(39,897)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**2,533,230**	**51,850**	**219,364**
Six months ended 30 June 2023			
Opening net book amount	**2,533,230**	**51,850**	**219,364**
Transferred from inventories	**23,896**	**–**	**–**
Additions	**53,716**	**–**	**3,358**
Disposals	**(4,744)**	**–**	**–**
Depreciation	**(124,087)**	**(3,623)**	**(4,341)**
Currency translation differences	**98,881**	**539**	**1,701**
Closing net book amount	**2,580,892**	**48,766**	**220,082**
As at 30 June 2023			
Cost	**4,920,832**	**96,935**	**266,832**
Accumulated depreciation	**(2,339,940)**	**(48,169)**	**(44,653)**
Impairment provision	**–**	**–**	**(2,097)**
Net book amount	**2,580,892**	**48,766**	**220,082**

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Financial assets			
Financial assets at FVOCI		**45,547**	52,059
Financial assets at amortised cost			
– Trade and other receivables	*(a)*	**1,905,643**	1,784,960
– Cash and cash equivalents		**838,140**	778,440
– Restricted cash		**79,710**	95,755
		2,869,040	2,711,214
Financial liabilities			
Borrowings	*(b)*	**3,140,399**	3,115,360
Trade and other payables	*(c)*	**1,329,287**	1,033,268
Lease liabilities		**16,442**	19,144
		4,486,128	4,167,772

(a) Trade and other receivables

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Trade receivables *(i)*	**1,643,343**	1,656,660
– Due from related parties *(Note 16(c))*	**17,982**	15,392
– Due from third parties	**1,625,361**	1,641,268
Less: Provision for loss allowance of receivables *(ii)*	**(48,048)**	(99,969)
Trade receivables – net	**1,595,295**	1,556,691
Other receivables	**307,602**	225,523
Dividends receivables *(Note 16(c))*	**2,746**	2,746
Trade and other receivables – net	**1,905,643**	1,784,960

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Trade and other receivables (continued)

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

The trade receivables of RMB44,457,000 (31 December 2022: RMB8,969,000) of the Group were used to secure borrowings from a financial institution as at 30 June 2023 (Note 8(b)(i)).

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

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

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

	(Unaudited) Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Beginning of the period	**(99,969)**	(129,166)
Provision for receivables loss allowance	**(7,367)**	(42,917)
Write-off of loss allowance	**59,288**	811
End of the period	**(48,048)**	(171,272)

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Non-current		
Bank borrowings – secured *(i)*	**84,099**	92,428
2024 Notes – secured *(ii)*	**2,514,455**	2,496,567
Less: Current portion of non-current bank borrowings – secured *(i)*	**(45,710)**	(42,832)
	2,552,844	2,546,163
Current		
Bank borrowings – secured *(i)*	**199,745**	230,365
Bank borrowings – unsecured	**342,100**	296,000
Current portion of non-current bank borrowings – secured *(i)*	**45,710**	42,832
	587,555	569,197
	3,140,399	3,115,360

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June 2023 RMB'000	2022 RMB'000
Beginning of the period	**3,115,360**	3,039,861
Additions of borrowings – net	**348,263**	455,940
Repayments of borrowings	**(347,234)**	(459,086)
Amortisation using the effective interest method	**27,669**	21,527
Repurchase of the 2024 Notes	**(101,810)**	–
Exchange difference	**98,151**	128,890
End of the period	**3,140,399**	3,187,132

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings (continued)

(i) Bank borrowings – secured

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2023, USD 13,565,000 were drawn down, out of which USD 3,060,000 had been repaid in past years and the six months ended 30 June 2023, and the remaining principals of USD 10,505,000, equivalent to RMB75,904,000, will be fully repayable from 2023 to 2025. For the remaining of the Group's non-current bank borrowings, the amount of RMB10,000,000 were secured by trade receivables of RMB26,586,000.

The Group's current borrowings, secured as at 30 June 2023 were secured by bank acceptance bills and commercial acceptance bills, bank deposit, receivables and future trade receivables of the Group and some third parties. Among the bank borrowings, RMB10,532,000 (31 December 2022: RMB16,315,000) were secured by bank acceptance bills and commercial acceptance bills, RMB63,026,000 (31 December 2022: RMB70,808,000) were secured by trade receivables of RMB17,871,000 (31 December 2022: RMB8,969,000) and future trade receivables of RMB241,586,000 (31 December 2022: RMB255,981,000), RMB110,187,000 (31 December 2022: RMB107,242,000) were secured by the bank deposit of RMB43,396,985 (31 December 2022: RMB44,327,126), and RMB16,000,000 (31 December 2022: RMB36,000,000), were secured by some third parties as at 30 June 2023.

(ii) Senior Notes

In May 2021, the Company completed the restructuring of the 2020 Notes and 2022 Notes by issuing new Senior Notes amounting to USD398,945,000, among which USD21,600,000 with a maturity date on 15 November 2021 and the rest with a maturity date on 18 November 2024 (the "**2024 Notes**"). The 2024 Notes were listed on the Singapore Exchange Securities Trading Limited on 20 May 2021 with 17 drilling rigs as collateral and guaranteed by certain subsidiaries of the Group. It bears interest at 9.75% per annum payable semi-annually in arrears on 18 May and 18 November of each year, beginning from 18 November 2021.

In 2022, the Company repurchased part of the 2024 Notes and the total repurchased principal was approximately USD17 million. The Company paid USD7,094,000, equivalent to RMB50,240,000, to repurchase the 2024 Notes, and recorded gains of USD9,934,000, equivalent to RMB70,475,000. After the repurchase, the outstanding principal amount of the 2024 Notes was USD360,388,000.

In 2023, the Company repurchased part of the 2024 Notes and the total repurchased principal was approximately USD14 million. The Company paid USD7,405,000, equivalent to RMB52,230,000, to repurchase the 2024 Notes, and recorded gains of USD7,030,000, equivalent to RMB49,580,000. After the repurchase, the outstanding principal amount of the 2024 Notes was USD345,953,000. Gains arising from the repurchase transactions were recognized in the consolidated income statement under "Finance costs – net" (Note 12).

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other payables

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Bills payable	**10,199**	5,121
Trade payables:	**920,816**	677,867
– Due to third parties	**902,610**	658,541
– Due to related parties *(Note 16(c))*	**18,206**	19,326
Other payables:	**155,873**	88,225
– Due to third parties	**64,969**	64,462
– Due to related parties *(Note 16(c))*	**90,904**	23,763
Staff salaries and welfare payables	**47,091**	55,183
Interest payables	**31,042**	33,439
Accrued taxes other than income tax	**145,656**	156,678
Dividends payable	**9,996**	10,496
Other liabilities	**8,614**	6,259
	1,329,287	1,033,268

As at 30 June 2023 and 31 December 2022, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

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

9 ORDINARY SHARES

	Issued and fully paid up (Unaudited)		
	Number of ordinary shares	**Nominal value of ordinary shares** (In HKD)	**Equivalent nominal value of ordinary shares** (In RMB)
As at 1 January 2022 and 30 June 2022	1,696,438,600	169,643,860	141,975,506
As at 1 January 2023 and 30 June 2023	**1,696,438,600**	**169,643,860**	**141,975,506**

10 OTHER RESERVES

	(Unaudited) 30 June 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Statutory reserve	**131,199**	131,199
Merger reserve	**(496)**	(496)
Share options reserve *(a)*	**46,089**	46,089
Share premium	**1,175,144**	1,175,144
Financial assets at FVOCI	**18**	(7)
Capital redemption reserve	**702**	702
Capital reserve	**(43,553)**	(43,553)
	1,309,103	1,309,078

(a) Share options reserve

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) 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 2023 and 2022:

	Exercise price (per share in HKD)	Outstanding options (unaudited) Six months ended 30 June	
		2023	2022
Beginning of the period	5.93	**15,350,700**	15,350,700
Current period change	5.93	**–**	–
End of the period	5.93	**15,350,700**	15,350,700

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2023 and 2022 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding options (unaudited) Six months ended 30 June	
		2023	2022
5 February 2015	5.93	**3,070,140**	3,070,140
5 February 2016	5.93	**3,070,140**	3,070,140
5 February 2017	5.93	**3,070,140**	3,070,140
5 February 2018	5.93	**3,070,140**	3,070,140
5 February 2019	5.93	**3,070,140**	3,070,140
	5.93	**15,350,700**	15,350,700

All of the options were exercisable as at 30 June 2023 and 2022.

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) 2013 Share Option Scheme (continued)

The fair value of the 2013 Share Option Scheme at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date
	RMB'000
Total fair value of share options granted under 2013 Share Option Scheme	29,009

The significant inputs into the model were as follows:

	Granting date	
	In HKD	**Equivalent to RMB**
Spot share price	5.64	4.43
Exercise price	5.93	4.66
Expected volatility	55.79%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.20%	N/A
Dividend yield	2.68%	N/A
Early Exercise Level	1.58	N/A

There was no expense recognised in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2023 for share options granted under the 2013 Share Option Scheme (six months ended 30 June 2022: no expense recognised in the interim condensed consolidated statement of profit or loss), with a corresponding amount credited in share options reserve.

11 OTHER GAINS – NET

	(Unaudited) Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Exchange gains – net	**140,768**	208,810
Government grants	**7,685**	5,443
(Losses)/gains on disposal of property, plant and equipment – net	**(6,089)**	4,236
Net gains on disposal of an associate *(a)*	**17,053**	–
Others	**(1,749)**	3,381
	157,668	221,870

(a) In April 2023, Hilong Group of Companies Ltd. transferred its 30% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd. to a third party at a consideration of RMB57,980,000. The Group recorded a gain of approximately RMB17,053,000 from the disposal. All of the consideration has been collected.

12 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**3,800**	1,346
Finance costs:		
– Interest expense on bank borrowings	**(161,802)**	(158,957)
– Interest expense on lease liability	**(390)**	(172)
– Fair value losses on foreign exchange forward contracts	**–**	(4,154)
– Exchange losses	**(98,181)**	(124,008)
– Gains on repurchasing the 2024 Notes *(Note 8(b))*	**49,580**	–
	(210,793)	(287,291)
Finance costs – net	**(206,993)**	(285,945)

13 INCOME TAX EXPENSE

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

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

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

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

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

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

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 35% prevailing in the places in which the Group operated for the six months ended 30 June 2023 (for the six months ended 30 June 2022: 15% to 35%).

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

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

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

Pursuant to Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with 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 2023, Hilong Energy is in the process of renewal of the qualification.

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

14 EARNINGS PER SHARE

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

	(Unaudited) Six months ended 30 June	
	2023 **RMB'000**	2022 RMB'000
Earnings attributable to equity owners of the Company (RMB'000)	**144,701**	54,058
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,439**	1,696,439
Basic earnings per share (RMB per share)	**0.0853**	0.0319

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

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

As at 30 June 2023, there were 15,350,700 (30 June 2022: 15,350,700) share options outstanding related to 2013 Share Option Scheme. For the six months ended 30 June 2023 and 2022, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

15 DIVIDENDS

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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

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 2023 and 2022, and balances arising from related party transactions as at 30 June 2023 and 31 December 2022.

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hailong Oil Investments Co., Ltd.
Shanghai Hilong Shine New Material Co., Ltd.
Shanghai Longshi Investment Management Co., Ltd.
Hilong Group Limited

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.

16 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in this interim condensed consolidated financial information, during the six months ended 30 June 2023 and 2022, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Sales of goods or services:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**4,228**	3,749
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**415**	3,786
Shanghai Hilong Shine New Material Co., Ltd.	**67**	907
	4,710	8,442
Purchase of goods:		
Shanghai Hilong Shine New Material Co., Ltd.	**530**	540
Short-term rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**5,575**	5,575
Interest expenses on lease liabilities:		
Shanghai Longshi Investment Management Co., Ltd.	**32**	107
Rental income:		
Shanghai Hilong Shine New Material Co., Ltd.	**1,653**	1,653

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 2023 RMB'000	(Audited) 31 December 2022 RMB'000
Trade receivables due from:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**8,391**	7,249
Shanghai Hilong Shine New Material Co., Ltd.	**7,864**	8,143
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**1,727**	–
	17,982	15,392
Other receivables due from:		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	**60,631**	50,181
Shanghai Hilong Shine New Material Co., Ltd.	**22,780**	16,772
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**22,543**	29,722
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**10,802**	14,861
Hilong Group Limited	**1,515**	1,515
	118,271	113,051
Lease liabilities due to:		
Shanghai Longshi Investment Management Co., Ltd.	**295**	2,041
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**18,206**	19,326
Other payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	**82,419**	8,132
Shanghai Longshi Investment Management Co., Ltd.	**7,547**	8,825
Mr. Zhang Jun	**938**	938
Shanghai Hilong Special Steel Pipe Co., Ltd.*	**–**	109
Beijing Huashi Hailong Oil Investments Co., Ltd.	**–**	5,759
	90,904	23,763
Dividends receivables:		
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.

* In April 2023, Hilong Group of Companies Ltd. transferred its 30% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd. to a third party at a consideration of RMB57,980,000 (Note 11).

17 EVENTS AFTER THE BALANCE SHEET DATE

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

OTHER INFORMATION

CHANGE IN DIRECTORS' INFORMATION

The change in information of Directors since the date of the 2022 Annual Report of the Company is as follows:

– Mr. Cao Hongbo, a non-executive Director, ceased to act as the supervisor of Shanghai Hilong Special Steel Pipe Co., Ltd. (上海海隆特種鋼管有限公司) since 6 June 2023.

Save as disclosed above, there has been no change in the information of Directors as required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

DISCLOSURE OF INTERESTS

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

As of 30 June 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	713,661,000[1]	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800[2]	
	Beneficial owner	1,260,000	
		827,221,800	48.762%
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	Capacity	Name of associated corporation	Number of shares interested	Percentage of the issued share capital of that associated corporation
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust	Hilong Group Limited	100	100%

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

As at 30 June 2023, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares of the Company

Name of substantial shareholder	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	713,661,000(1)	42.07%
SCTS Capital Pte. Ltd.	Nominee	847,338,800(1)(2)	49.95%
Standard Chartered Trust (Singapore) Limited	Trustee	847,338,800(1)(2)	49.95%
Ms. Gao Xia	Interest of spouse	827,221,800(3)	48.76%

Notes:

(1) 713,661,000 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 (the "**Post-IPO Scheme**") on 10 May 2013. The scheme has expired on 10 May 2023. The following is a summary of the principal terms of the Post-IPO Scheme:

(a) Purpose

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

(b) Who may join

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

(c) Maximum number of shares

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

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

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

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

(e) Subscription price

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

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

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

(g) Expiry of option

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

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

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

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

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

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

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

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

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

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

OTHER INFORMATION

On 5 February 2014, the Company granted share options to certain employees to subscribe for an aggregate of 19,980,000 ordinary shares of the Company at an exercise price of HK$5.93 per share.

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

Category/ name of grantees	Number of Shares					Exercise price HK$	Closing price immediately before the date of grant HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Vesting period	Exercise period
	Outstanding as at 1 January 2023	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ Lapsed during the Interim Period	Outstanding as at 30 June 2023						
Employees of the Group other than Directors in aggregate	15,350,700	–	–	–	15,350,700	5.93	5.72	N/A	5 February 2014	5 February 2014 – 4 February 2019	5 February 2015 – 4 February 2024

Note:

The number of options available for grant under the Post-IPO Scheme was 66,223,250 as at 1 January 2023. As the Post-IPO Scheme has expired on 10 May 2023, there are no more options available for grant under the Post-IPO Scheme as at 30 June 2023.

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions set out in Part 2 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the Interim Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF INTERIM 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 OF 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.

OTHER INFORMATION

APPRECIATION

The Board wishes to express its sincerest gratitude to the shareholders and business partners of the Company for their continued support, and to the Group's employees for their dedication and hard work.

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

Hong Kong, 25 August 2023